alloya®
Corporate Federal Credit Union

2015 Strategic Plan Digest

This year will be the second year of a three year plan and therefore reflects an evolution of Alloya's longer-term strategy. Alloya's Vision, Mission, Values and Goals are unchanged (see below). The strategy of Alloya is not fundamentally altered; however, there are changes in emphasis and tactics based on current market events. A copy of the full plan is available to members upon request.

Mission – To deliver products and services that add value to owners.

Vision – To be a valued partner for its owners in their mission to serve their members.

Guiding Principles – Alloya affirms that it:

- Exists to add value to owners in their mission to serve their members.
- Is committed to transparent, participative governance.
- Is open and transparent in communications with owners at all times.
- Is ethical, reflecting professional behavior as defined in Alloya's policies and procedures.
- Ensures that the safety and soundness of owners' transactions and their investment in Alloya are always held paramount.
- Goes above and beyond owners' expectations in product and service quality.

Risk Management Philosophy – Alloya is committed to:

- Focus on the return of principal versus the return on principal.
- Utilize off-balance sheet products to protect the capital that owners entrust to Alloya.
- Have the proper infrastructure and resources in place to measure and report risk levels on a regular basis to owners.
- Share Alloya's risk profile and mitigation strategies with owners.
- Provide a mechanism for owner input into the risk profile.

Value Proposition – Alloya has developed a compelling value proposition for its members. Alloya has estimated the dollar value of this proposition based on its free line of credit, free expertise which reduces member back office expenses, free access via Premier View and its perpetual capital dividend. While Alloya believes it delivers value beyond these activities, these are the most easily monetized. Alloya estimates these activities generate a return of about 35% in invested capital or about $74 million per year. Alloya delivers value to its members primarily through four specific activities:

- *Aggregating volumes* – Alloya aggregates volumes from its members to provide efficient lines of credit, single-point settlement and payment processing. Aggregating deposits creates scale purchasing power and the ability to make loans to other members. Aggregating payment volumes creates scale purchasing power and/or access that no individual credit union can achieve on its own.

- *Aggregating back office services* – Alloya strives to be part of its members' back office. To do this, Alloya creates systems (Premier View), processes (i.e., cash ordering) and hires expertise that few individual members can cost justify. Alloya then shares these efficiencies with all its members.

- *Providing value-added expertise and education* – Alloya has the scale and scope to hire vertical expertise and share that with all members. In addition to being experts in their field, Alloya staff is committed to serving credit unions. The best example is Balance Sheet Solutions, where Alloya has six Chartered Financial Analysts (CFAs). Most credit unions cannot afford to hire one investment processional at this level. Alloya also leverages its expertise in this area and many others to offer free training and education, something most competitors charge for. The value created in this area is not captured in the $74 million member return noted previously.

- *Providing high-touch and high-tech access* – Alloya strives to provide exceptional service via its in-person sales and service staff. Alloya couples this with an effective, secure electronic distribution system (Premier View) that allows members to transact business safely, at their convenience. Due to its scale and focus, Alloya has been able to tailor Premier View to the specific needs of credit unions.

Key Resources – The following are Alloya's key resources:

- *People* – Alloya's most valuable "product" is its people. Alloya is in a service business providing largely undifferentiated products at the wholesale level. The quality service staff delivers, the exceptional relationships they develop, and the support they provide members is, without question, Alloya's greatest asset.

- *Premier View and other technology* – While Alloya's people do a great job, members also need easy, secure transactional services. Alloya has developed Premier View to provide just that. Premier View is tailored specifically for credit union needs and well over 95% of all member interactions occur on it.

- *Partners* – Over the last several years as Alloya has reinvented itself, it has sought out more partnerships. Alloya seeks partners who have best of breed production capabilities and pairs that with its excellent high touch, high tech distribution channel.

Goals – Alloya will pursue the following Goals in pursuit of its Mission and Vision:

- *People/Culture* – Alloya's staff are the key driver of the quality products and services it delivers. Alloya will focus on hiring, training and retaining excellent staff. Employees are engaged and proud to work at Alloya.

- *Member Service* – Alloya has distinctive competence in this area and sees this as a key differentiator. Members are engaged and proud to be members of Alloya.

- *Financial Performance* – Alloya needs to continue to be a safe, sound, well-capitalized, profitable and risk-averse institution. Member value creation will be balanced with the creation of retained earnings.

Objectives – Alloya establishes Objectives as part of its planning process. Objectives are specific measures or actions that support achievement of the Goals. By meeting the Objectives, progress is made toward completing the Goals and thereby achieving the Mission and Vision. Alloya defines Objectives as either quantitative Key Success Measures (KSMs) or qualitative Business Plan Initiatives (BPIs) that make up the balanced scorecard for the current year's plan. They are summarized below:

- ***People***

  - KSMs – In 2013, Alloya performed its first employee engagement survey using the Gallup G12 survey, which was performed again in late 2014. There was substantial increase from the 21st percentile to the 48th percentile, year-over-year. Employee engagement remains Alloya's litmus test for an effective, engaged staff and this will be the measure, based on the same survey tool for 2015. Alloya plans to target ***an*** increase to the *52nd* percentile for 2015.

  - BPIs

    - Alloya has established the Albany facility as the organizational standard, which is meant to project and reinforce our brand. In 2015, Alloya will begin the multi-year process of retrofitting its other facilities to reflect this same look and feel.

    - Alloya will also evaluate the technology tools available to improve staff efficiency including video teleconferencing.

- ***Member Service***

  - KSMs – Alloya will focus on two 2015 metrics for Member Service, which will be similar to those used in 2014 including a member survey result and a target for the number of new contracts. As membership growth will be critical going forward, the metric will now include new memberships as well as longer liquidity loans for members, offset with interest rates swaps and contracts for new products. In 2015, new contracts will exclude Remote Deposit Capture (RDC) items and include new memberships. New loan contracts will be $100 million or ten loans, while new product contracts will include products implemented in 2015 (i.e., CU Wallet). The target levels are *4.71 out of 5.0* for the member survey and *115* for new contracts.

  - BPIs

    - Alloya will implement the merger with SunCorp. This is an extensive project that will take many resources and most of 2015, with the check processing consolidation extending to the end of 2016.

- Product Consolidation will continue to be a focus as evaluations performed in 2014 including ACH, share drafts and check collections will result in 2015 and 2016 implementations.

- Product Innovation will also be a BPI for 2015, with two new specific "Other" BPIs included on implementing CU Wallet and Lending Liquidity Strategies.

- Alloya will continue to evaluate a standard pricing schedule for all markets through 2016, with planned implementation in 2017. This is a critical strategic and financial issue that will affect all members, which requires thorough analysis and planning.

- Alloya has several multi-year BPIs including Investing in the Service Culture and Telling the Alloya Story that are currently in process and will continue in 2015.

- As a service-driven organization, Alloya needs excellent data on its membership and its sales and service interaction with it members and potential members. Alloya will investigate empowering tools for staff including a new Customer Relationship Management (CRM) system.

- ***Financial Performance***

  - KSMs – Net income remains the standard for measuring effective organizational performance. The target will be set for the budgeted level of approximately *$4.8 million* for 2015.

  - BPIs –

    - Balance Sheet Solutions has made significant investments in its infrastructure in 2013 and 2014 including the additions of Investment Accounting and Gimme Credit. In 2015, it will focus on leveraging these infrastructure improvements to drive sales.

    - Also, an evaluation of the member contracting process revealed an opportunity to improve that process. The new process is being developed and implementation will begin in 2015.

Plan Risks **–** To create member value, Alloya takes certain risks, while mitigating or avoiding others. Alloya has developed an extensive Enterprise Risk Management (ERM) framework to measure, monitor and manage these risks and evaluate them from several different perspectives. The following provides a summary of those risks:

- *Interest Rate Risk* – Alloya is exposed to interest rate movements. Alloya currently estimates it has about $26 million of capital at risk in a stressed rate movement, which represents its second largest risk.

- *Credit Risk* – Credit risk is Alloya's largest, with an estimated $117 million at risk. Should one of the sectors that Alloya invests in have problems, however unlikely given that a majority of its investments are government guaranteed, Alloya could experience unrealized or realized losses. While unlikely, the recent mortgage crisis is a stark reminder of what can happen.

- *Liquidity Risk* – This is Alloya's lowest estimated risk at just under $4 million. While Alloya's balance sheet is generally short-term, it has some exposure to longer-term member loans and investments.

- *Transaction Risk* – This is Alloya's third largest estimated risk at $10 million. This covers a wide array of potential issues ranging from losses on payment transactions to fraud. Alloya invests heavily in people, processes and systems to mitigate this risk.

Alloya also seeks to anticipate risk events. Alloya monitors this through its Key Risk Indicators (KRIs) to determine if any risk events are becoming more likely. The KRIs are analogous to the KSMs used to measure strategic plan performance. Currently, Alloya believes that risks in the four categories are within its risk appetite and are not materially increasing.

2015 Financial Plan

- Alloya has developed a budget for 2015, based on:
  - Net interest income modeling (rates rise slightly).
  - Evaluation of fee revenues from existing and new products.
  - Review of functional operating areas.

- The budget for 2015 reflects net income of $4.8 million and the following trends:
  - <u>The balance sheet and EBA accounts are expected to remain constant at $3.0 billion each.</u>
  - <u>NII will decline as higher-rate loans begin to mature and re-price through 2017.</u>
  - <u>Correspondent Fee Income will be about $12.8 million per year. Volume declines in existing business will be offset by new business and/or pricing changes.</u>
  - <u>Other income (primarily BSS), will increase to be $9.5 million per year.</u>
  - <u>Operating expenses will stabilize</u> at $34.5 million per year.
  - <u>Capital</u> ratios will remain strong as the leverage ratio will be over 9.3% (5% is well-capitalized as defined in the regulation) and the retained earnings ratio will be 2.26%, substantially ahead of the current 0.45% requirement and ahead of the 2020 requirement of 2%.