

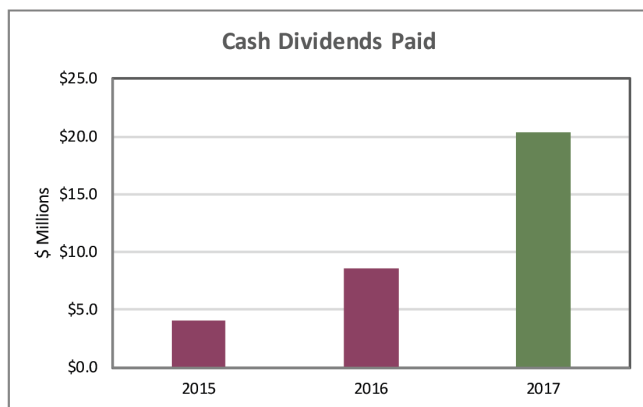
# Report to the Membership

2017 in Review

## Our Focus

### Supporting Credit Union Success

Alloya continues to be a great example of the Power of Cooperation within the credit union movement. Over 1,500 credit unions find value by sharing resources through their Alloya membership. For instance, some credit unions have cash to invest while other credit unions need cash. Alloya simply acts as the efficient intermediary to match those needs. We constantly ask ourselves, “What is in the best interest of the membership and how can we simplify their back office operational lives?” My favorite chart for 2017 provides an illustration of this commitment. As short-term interest rates rose, Alloya’s balance sheet was very well positioned to earn more revenue and has more than doubled the dividends paid in each of the past two years! This returns more value to credit unions to support the great work they do in their communities.



Alloya’s cost of funds has increased almost 400% since 2015. I am sure that most other financial institutions cannot make the same claim!

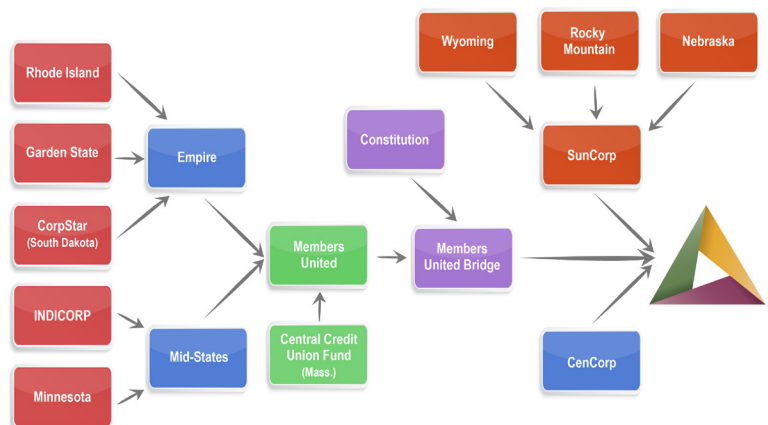
Alloya members also share access to a team of credit union professionals that specialize in services that range from wires, checks, coin & currency and ACH to investments and lending. Alloya professionals view themselves as a “department” of the credit unions and are always ready to assist in their areas of expertise. We also believe that good technology that simplifies credit unions’ back office functions should be complemented by outstanding member service. With that in mind, credit unions perform most of their transactions through our leading account management platform, Premier View. And when questions arise, Alloya professionals are quick to answer the phone and provide solutions.

### 2017 – Alloya Construction is Complete

Alloya supports more credit unions than any other corporate credit union as the result of significant consolidation.

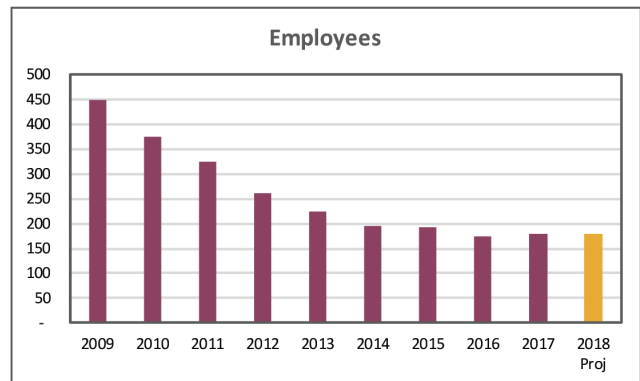
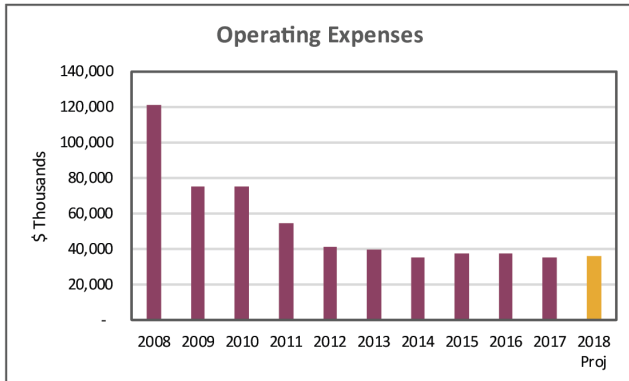
By the end of 2017, I am very proud to report that all the integration activities associated with merging 17 separate legal entities are now COMPLETE! As we begin 2018, every member of Alloya enjoys the same member experience.

### Organizational History (17 Legal Entities)



# Report to the Membership

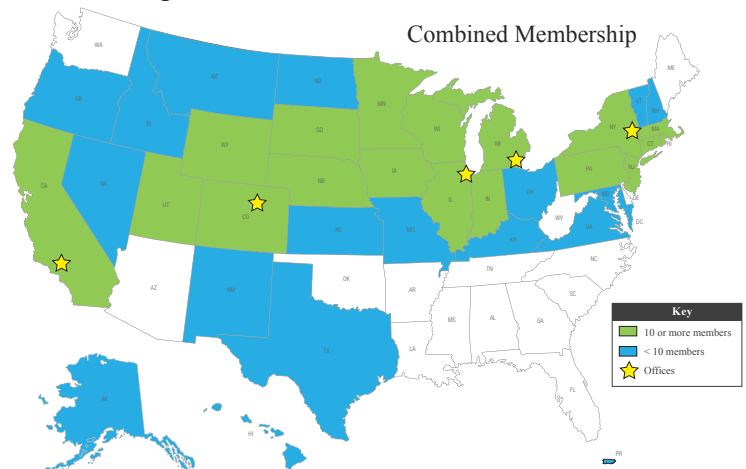
While Alloya's construction is complete, mergers and consolidation activities are difficult and result in significant change for the membership and employee base. With the interests of membership always coming first, we have pursued a path to eliminate duplicate systems, processes and back office support functions. Through these efforts, spanning several years, significant efficiencies have been realized even while we have re-directed resources to invest in additional capabilities.



Today, Alloya is more efficient and capable than ever. In addition, Alloya members have built a national cooperative that is well positioned to serve credit unions throughout the United States.

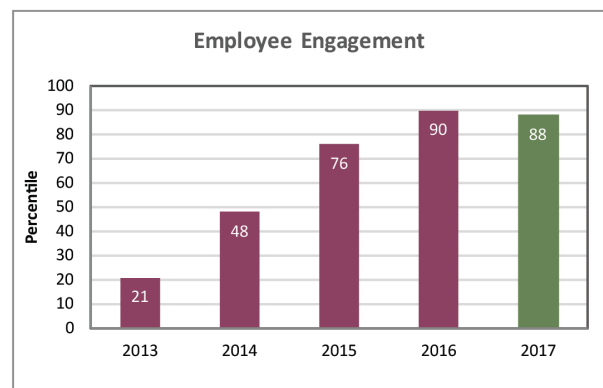
*Looking Forward –  
Our Goals Remain the Same*

Our strategic goals are to maintain a team of talented professionals that believe in the importance of the credit union movement and truly understand the meaning of member service – all while ensuring that Alloya is financially sound and compliant with the flexibility to grow.



**People:** At Alloya, we ask a lot from a few when considering the breadth of services provided. We continue to build a culture based on Respect, Integrity, Service and Engagement, and these values drive who we hire and how we reward. Today, our team of professionals care about each other, truly understand the importance of member service and positively contribute to company performance.

It was not always this way. In 2013, employee engagement scores were bottom tier, which was understandable when you consider that Alloya had recently emerged from a financial crisis, a merger was underway and management turnover created uncertainty. We have been consistently using the Gallup Q12 employee engagement survey to “take the temperature” of the organization. I am very proud that Alloya now remains a top tier employer of choice.

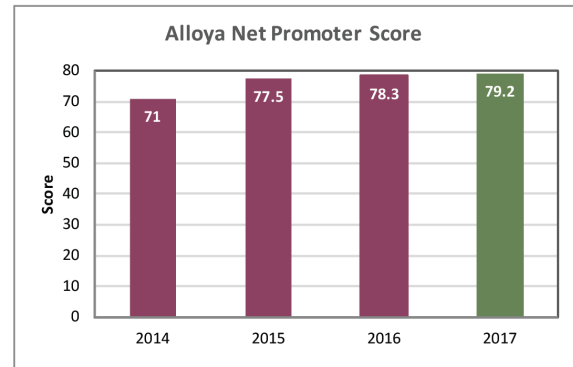


# Report to the Membership

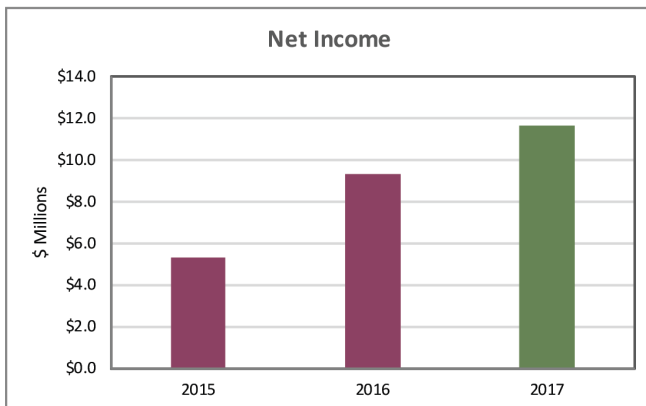
The scores continue to highlight that staff enjoy working for Alloya, have all the necessary tools to do their job, appreciate the support provided by supervisors/managers, and work well together as a team.

**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?*

During 2017, several members experienced significant change as Alloya completed its construction and consolidated systems. We tried to turn this disruption into an opportunity to showcase our commitment to member service. We needed members' support to complete the projects and we tried to make the conversions as simple and as streamlined as possible. Even with this disruption, Alloya continued to earn high scores as measured by the net promoter score.



**Financial Performance/Compliance:** Alloya is compliant with applicable rules, regulations and policies, and the cooperative financial service business model is strong. We are meeting our long-range goals, which enables us to pass back as much value to members as possible. Alloya has a long-term goal to achieve a 4% retained earnings and other equity ratio in 10 years. During 2017, we made progress against this goal by earning \$11.9 million.



While we continue to make progress towards our long-range capital goals, we are also looking for other ways to return value to the membership. I am pleased to share that effective January 1, 2018, Alloya doubled its dividend paid on members' Permanent Contributed Capital (PCC) and increased the rate to 1.50%. With this change, Alloya increased members' annual PCC dividends by an estimated \$1.5 million. This benefit of membership puts more funds in the hands of credit unions, helping support the great work they do in their communities across the country.

## Highlights (Membership Value)

During 2017, we focused our energies on consolidating and streamlining processes as part of our shared capabilities initiative, allowing us to enhance the member experience. These initiatives have led to a membership that is now using the same systems with simplified, single sign-on access through Premier View.

# Report to the Membership

## **Alloya - A Department of Your Credit Union**

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, and membership provides you with access to 180 employees that are here to complement your team. 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.

One example that I often like to cite is that we support 682 members for ACH receipt processing and 428 members for ACH origination processing. In conjunction with our Electronic Services Department, our staff in other areas, including Member Services, Member Support and Project Management, have ACH expertise and provide support to members too. With a total of 9 ACH accredited professionals at the corporate, sound guidance on all things ACH is just a phone call away.

When members call Alloya, our professionals answer. Credit unions calling or emailing our Member Services team know who they are communicating with – and that familiarity helps build trust. In 2017, our Member Call Centers received 91,793 calls with an average answer time of 3.73 seconds and an abandonment rate of just 0.24%. In addition, the group responded to 12,690 emails and placed 43,189 outbound calls.

## **Check Processing Consolidation**

*Why TranzCapture?* Despite shrinking volumes, checks are not going away. Credit union members will continue to choose check services to avoid fees associated with credit cards. It is important for credit unions to have an efficient and cost-effective solution for share draft deposits.



So, where can credit unions turn in the face of decreasing volumes and rising prices? Alloya and Catalyst Corporate FCU joined forces in the true spirit of credit union collaboration to form TranzCapture. This 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. Most importantly, 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.

This initiative was a major consolidation effort that involved multiple staff at the corporate to move members from their previous inclearing platforms to one platform called TranZact that supports TranzCapture. During this migration, we moved existing check images and converted share draft and deposit processing to the new platform (hosted by Catalyst) successfully over the course of the year. We provided training and guidance to make this transition as seamless as possible without compromising too much of the credit union staff's time.

In late 2016, we saw the first credit union successfully scan their deposit items using TranzCapture Branch. Today, we have 880 credit unions processing share drafts; 698 credit unions using Image Deposit; and 583 Alloya members using TranzCapture Branch with 1,557 branch licenses, 27 ATM/ITM licenses, 17 mobile licenses and 9 business licenses. Additionally, we established 367 active Image Clear set-ups.

We learned a lot through the process. As you can imagine with such a large undertaking, we encountered obstacles along the way; but as a team, we ensured each migrating member had successful onboarding to

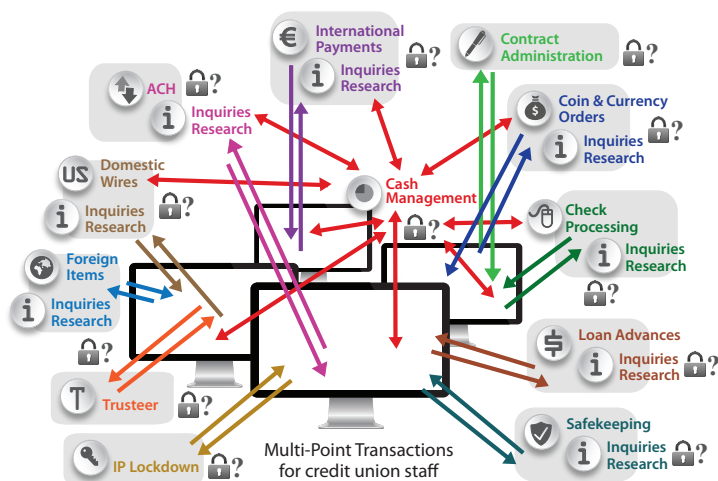
# Report to the Membership

the only credit union-owned and credit union-controlled web-based solution that supports check deposit services. The result is a more efficient research and adjustment process with the same great member service credit unions have come to expect.

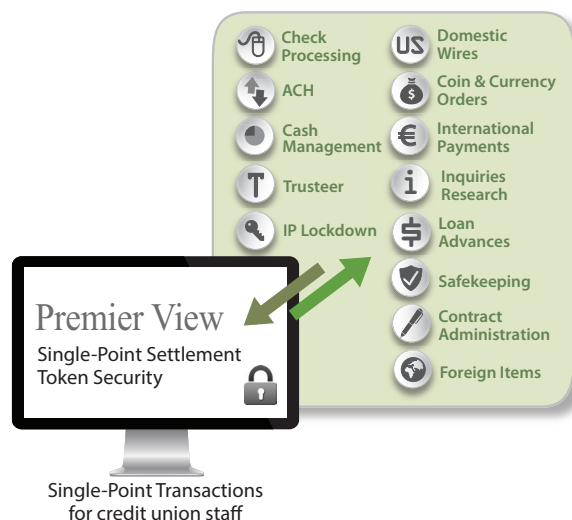
## Premier View

Premier View allows for easier, more efficient operations. 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 all in one platform.

**Without Premier View, your operations may look like this:**



**With Premier View, your operations look like this:**



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 & currency, process international payments, view check images and perform a host of treasury management functions (investing and borrowing).

Premier View's reputation for making operations easier at credit unions has spread outside of membership. Two other corporate credit unions were looking to replace their current web-based front-end application. After contacting us and seeing firsthand how beneficial Premier View is for day-to-day operations, they asked if we could create a version for their use. In 2017, Alloya created and implemented a "White Label" version of Premier View for those corporates, adding 1,000 new users to this valuable tool and making significant upgrades to how their members conduct business with them.

When it comes to Premier View, we will not rest on our laurels. Yes, Premier View is an exceptional tool that provides technology that makes credit union operations easier, but we believe it is important to make regular improvements to its functionality. Many of the enhancements that are made come from member feedback. We hosted four focus group meetings in our offices at Albany, NY; Naperville, IL;

2017 Premier View Transaction Totals	
Corporate ACH	2,864,784
Member Adjustments	226,301
Domestic Wire In	188,427
Domestic Wire Out	186,618
Share to Share Transfer	108,640
Coin and Currency	90,555
Member-to-Member In	37,978
Member-to-Member Out	37,977
International Wire Out	21,208
Service Wire In	8,287
Service Wire Out	1,809
Share-to-Loan Transfer	7,765
Loan-to-Share Transfer	2,254
Cash Concentration Transfer	2,906
Corporate Wire Out	2,691
Security Purchase	2,016
Security Sale	605
Certificate Purchase (Regular)	1,186
Certificate Purchase (Special)	21
<b>TOTAL</b>	<b>3,792,028</b>



# Report to the Membership

Southfield, MI; and Westminster, CO solely focused on Premier View. These meetings are helping us draft the blueprint for future enhancements in 2018 and beyond.

During 2017, we implemented several enhancements, including: the addition of member-to-member transactions to the domestic wire-in and wire-out files; the ability for authorized users to set-up a Global Loan Account to create and payoff short-term loans; and the creation of a new “Prior Day” quick filter button on Account History.

*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, such as the alert feature to notify us when a credit union’s computer may be compromised by a virus. When this occurs, we proactively contact the impacted credit union and share as much information as possible to help re-secure the machine.

Access to Premier View, and Alloya’s investment in security, saves money for your credit union 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.

## Your Liquidity Source

Alloya provides benefits that the for-profit sector cannot, including access to over \$9 billion in available Advised Lines of Credit. 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 \$45 million annually – and that’s before the high rates the banks charge when a loan is advanced.

*Loan Participations:* Credit unions that utilize our 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 serves as the facilitator by working together with both sellers and buyers – moving the deal through its cycle by assisting with pricing, negotiation and analysis.

Alloya’s 2017 Loan Participations	
<b>44</b> Transactions	<b>\$3.78</b> million Average Participation
<b>\$166.5</b> million Total Participations Facilitated	

This allows a selling credit union to generate liquidity (without having to borrow); and for the buying credit union to share in the profits without having to originate the loan.

## Balance Sheet Solutions

Balance Sheet Solutions is a wholly owned Alloya CUSO that provides advice, investment and risk management 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. Their team of professionals provides a wide range of asset management and liability services to credit unions, including interest rate risk reporting, efficient investment accounting, high quality 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.

**DURING  
2017,**  
we provided free investment  
accounting on almost  
**12 thousand**  
securities with a total par  
value of **Over \$7  
BILLION**

# Report to the Membership

## 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 bring together 134 attendees from across the country to learn and network with each other, industry experts, partners and staff during the third 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.

## Contracts & Cooperative Pricing

*New Member Contracts:* Alloya is a result of 17 separate legal entities that have merged over the last 15+ years. In each merger, Alloya assumed preexisting corporate member contracts. While the contracts cover the same products and services, their terms and terminology differed.

This project started two years ago with a vision that all members would have access to the same value proposition offered by Alloya. We also wanted to simplify the contract process for the membership and set a high level of performance. Specifically, our contracts have a 60-day notice of termination. If Alloya is not adding value, we will then help the membership convert to a better solution for that service. With 1,500 members and an average number of 8 contracts per member, we also wanted to simplify the contracting process.

To achieve these goals, we reached out to members so they could help us create a contract that made sense to them. Members were critical in this process. We held a focus group discussion and took the unprecedented approach of publicly requesting member comments on the contracts.

Our transparent process helped us create a better contract for all members, which also helped reduce the administrative overhead (for Alloya and members) by making contracts electronically accessible through Premier View.

Going forward, executed contracts will be available through Premier View with a simple click of a button. Product Operating Agreements for new products and services can also be quickly and efficiently implemented within Premier View's Contract section. Any future updates to the specific Product Operating Agreements (for example, changes required by regulation) will be communicated through Premier View.

*Cooperative Pricing:* With the completion of migrating members to Premier View, consolidating disparate ACH, check and contract systems, and now having identical cost structures across the membership, the final step was putting forth a unified, national fee schedule.

## 2017 Educational Outreach

### Webinars

#### Strategic

11 sessions | 909 attendees

#### Operations

468 sessions | 3,527 attendees

452 of the 479 webinars had **NO Charge**  
Average fee for a webinar: \$50

**That's a savings of \$22,600 per individual**



### Credit Union Executive Leadership SYMPOSIUM

134 attendees | 97 credit unions represented\*

**4.9/5.0** Attendee Average Symposium Rating

*\*National representation - 17 states from HI to RI*

### Roundtable Regional Events

11 roundtable events | 211 attendees from 150 credit unions

### BALANCE SHEET SOLUTIONS

an alloya company

#### Academies (3 sessions)

58 attendees | 40 credit unions

#### Economic & Investment Conference

97 attendees | 57 credit unions

#### ALM Workshop

12 attendees | 9 credit unions

37 tradeshows

40 speaking sessions

4 Premier View focus groups



Offered at 15 events  
95 total credits offered  
Average 6.3 per event

# Report to the Membership

The 2018 fee schedule applies to all members of Alloya and replaces seven regional rate cards that were left in place following multiple mergers over the past decade. The new fee schedule continues to represent outstanding value, is much simpler to understand, better aligns revenues and expenses, and eliminates regional pricing differences.

We recognize that each member utilizes a unique mix of services and the financial impact of this change will vary by member. Some members will experience an increase in their fees while others will experience a decrease, but after implementation, all members will pay the same price for the same service. And the corporate will be in a better position to simultaneously negotiate future fees and look for additional value opportunities for members across the country.

## **Concluding Comments**

Alloya represents an excellent example of the Power of Cooperation as 1,500 credit unions are sharing resources every day. We believe in the credit union movement and are doing our best to support credit union success so that we can all continue to do great work in local communities. The future looks bright and Alloya is fortunate to be led by a Board of Directors that are credit union leaders from throughout the country. This group of professionals works hard on a volunteer basis to continuously identify ways to advance the Alloya business model without straying from the core services of liquidity, efficient cash management, investment and payment services offered through Premier View.

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

Sincerely,

Todd Adams  
Chief Executive Officer

For financial and operational highlights, see next page.



# Report to the Membership

## Other Operation Highlights

### *Financial - Projected 12/31/17*

Net income – \$11.9 million  
Retained earnings and other equity – \$81.5 million  
Total GAAP equity – \$307 million  
Total assets – \$3.2 billion

### *Ratios - Projected 12/31/17*

Retained earnings and other equity ratio – 2.46%  
Regulatory capital ratio – 6.90%  
(NCUA requirement of 4.0%)

### *Key Product Highlights as of 10/31/17*

Advised lines of credit – \$8.99 billion  
Number of line advances – 12,680  
Total advances – \$11.9 billion  
Percentage of credit unions taking an advance – 50.3% (780 total members)

#### Loan Participation program

Number of deals supported – 44  
Dollar amount – \$166.5 million

Shares and certificates of deposit – \$3.0 billion

EBA program – \$2.1 billion

Checks processed – 182 million for \$119 billion

ACH transactions – 173 million for \$230 billion

Coin & currency deliveries completed – 90,611 for \$12.1 billion

Wires Processed – 441,732

### *Balance Sheet Solutions*

#### Investment accounting

Number of credit unions – 115  
Number of investment positions – 11,919  
Par value of the positions – \$7.1 billion

Marketable securities – gross par value of \$1.5 billion

### *SimpliCD*

CD sales– \$4.2 billion  
Funds raised through the CD issuance program – \$0.7 billion

## *Technology and Call Center Highlights*

### Premier View

Number of users with authorities in the system – 24,612  
Number of pages accessed each year – 41.2 million  
Lines of code supported – over 1 million

### Member call center

Calls completed (incoming and outgoing) – approximately 135,000 per year  
Average wait time to answer – 3.7 seconds  
Abandon Rate – 0.24%  
Responses to member emails – 12,690 per year