

# Supporting Credit Union Success

## REPORT TO THE MEMBERSHIP

*2018 in Review*



### Transactions

A world of  
technology solutions



### Liquidity

Multiple sources  
of funding



### Investments

Advice, investments  
and solutions



## Our Mission

*Supporting credit union success through the power of cooperation.* 2018 was another great year for Alloya and the purpose of this report is to share a few highlights resulting from pursuit of this mission.

### Highlight #1 - More Cash in Your Pocket

Let's start with dividends paid to members. When the Federal Reserve raises short-term rates, Alloya immediately earns more income and has elected to immediately raise its dividends paid. We believe putting this extra income into the hands of our credit union members helps support their success and gives them extra cash so they can continue to do great work in the communities they serve. In total, Alloya paid out \$36.6 million of cash dividends compared to \$21.8 million the year before (a 67% increase). While it is impossible to predict short-term interest rates, we are planning to continue this strategy into 2019 and are expecting to pay out even more dividends this year.



### Highlight #2 - Better Technologies to Simplify our Members Lives

At Alloya, we are always looking for ways to add content to our leading Premier View technology that is designed to help over 23,000 credit union staff perform their daily back office functions. A highlight during 2018 was our launch of Premier Portfolio, which is an online trading and comprehensive investment management portal. Alloya previously offered these functions but they required emails, phone calls and faxes. Today, those functions can now be performed online, efficiently and securely. I believe a picture is the best way to highlight the improvements.



### Cash Management and Investment Services (with Alloya/Balance Sheet Solutions)



Premier Portfolio continues a trend of corporate collaboration (e.g. TranzCapture, Premier View “White Label”). This new technology represents a joint effort between Alloya and Volunteer Corporate Credit Union (VolCorp). So, how did this latest collaborative effort come about? Both corporates recognize that there is strength in numbers. We were looking to develop an online tool for members to easily complete online trading. In the early stages of this process, a conversation was had with the CEO of VolCorp about their proprietary software, which offered everything we wanted to offer. Instead of withholding information or developing two separate tools that do the same thing in the same industry, both corporates determined the best solution for credit unions was to work together.

Having two corporates come together shows that we stand behind the mission of credit unions: meeting members' financial needs through quality service and product offerings. (More on Premier Portfolio on page 6 and 7)

### Highlight #3 - Payment Services that Add Real Value



Last year, Alloya announced the launch of its nationwide check processing solution for credit unions through another joint effort, this time with Catalyst Corporate. This initiative represented a major investment for Alloya, and the platform is built on the latest technologies to improve efficiency and security. I am pleased to report that credit unions are finding great value in this offering and the system is operating at a high level with over one million checks per day flowing through the platform. Alloya can help credit unions manage all aspects of their check operations, while significantly reducing their operating expenses as compared to in-house or competitor alternatives.

### Highlight #4 - Efficient Access to Liquidity

Credit unions continued to experience significant loan growth during 2018 and Alloya continues to be the first place members look when they need cash. If credit unions need to borrow against their Advised Line of Credit, they can simply log on to Premier View and draw down cash. It's that easy.

But the Advised Line of Credit is not our members' only option. Through the SimpliCD program, over 3,000 credit unions are connected to share liquidity. For instance, if a credit union needs \$20 million, 80 credit unions are willing to provide the funding with technology that makes the transaction super-easy, super-efficient and completed within a couple of days.

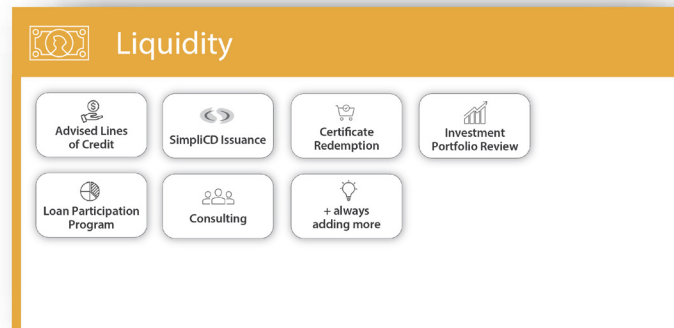
Alloya also helps credit unions buy and sell loans through its Loan Participation Program, works with members to manage collateral for other Lines of Credit and helps them evaluate CLF or Discount Window options.

### Highlight #5 - High Standards of Member Service

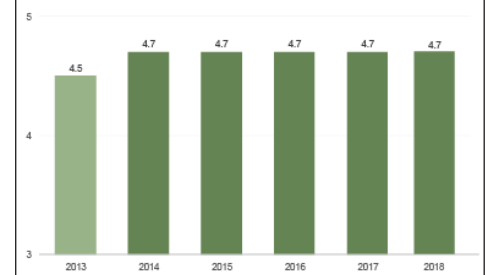
Another highlight for 2018 is Alloya's continued focus on member service. Alloya's service model is centered around the belief that credit unions want access to leading technology, but maybe even more importantly, they want to talk to someone that cares about them when issues arise. At Alloya, we do not have audio response systems. We have real people that pick up the phone within three seconds and are here to support the membership.

Alloya conducts an annual survey to gauge how credit unions feel about their membership. I am proud to report that 2018 represented the fifth consecutive year of record results.

### Liquidity Solutions (with Alloya/Balance Sheet Solutions)

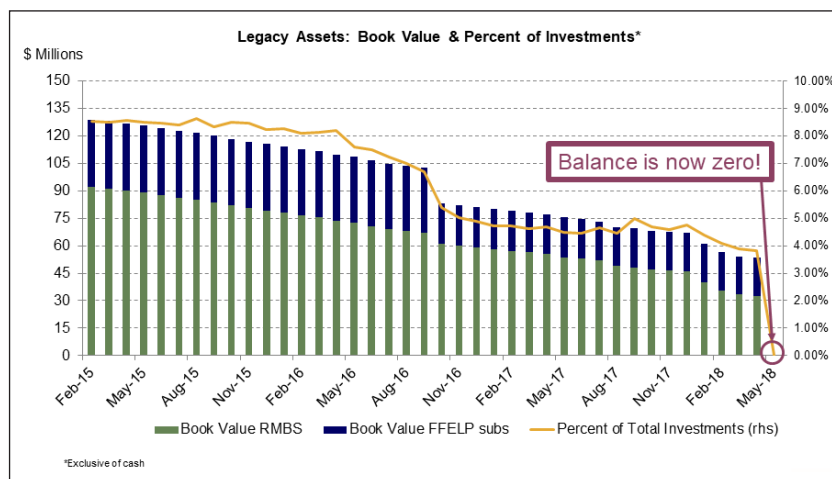


### Member Survey Scores



### Highlight #6 - Financial Performance and Compliance

- Net income of \$17.9 million, increasing retained earnings and other equity to \$95.9 million.
- Continued compliance with all applicable rules and regulations.
- Interest Rate Floors – One of Alloya’s largest balance sheet risks was a declining interest rate environment. During 2018, to mitigate this risk, Alloya executed \$400 million in notional value of interest rate floor contracts. This action better ensured Alloya would remain on track with its long-range capital accumulation plans, even if short-term interest rates returned to low levels.
- Legacy Asset Resolution – Alloya de-risked during 2018 by selling its remaining Private Label Real Estate Mortgage-Backed Securities (PLRMBS). Alloya managed these assets since the CenCorp and SunCorp mergers, and ultimately sold them at a gain.



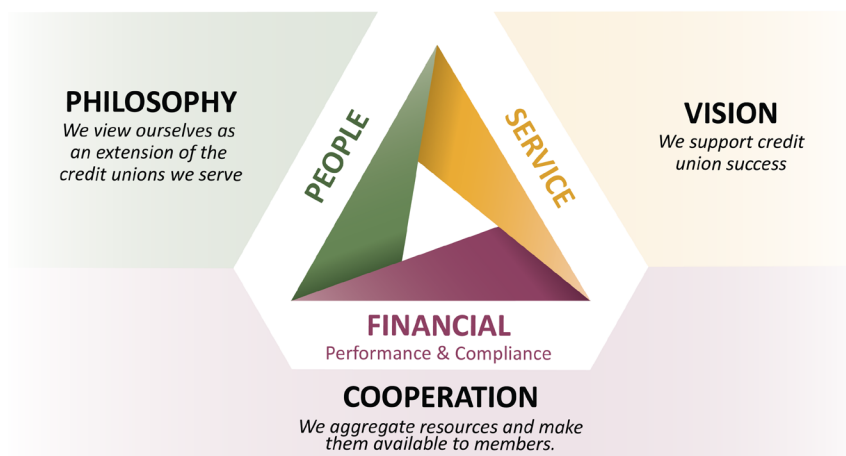
The rest of the report is dedicated to providing the membership with an update on the Alloya story. Who we are, what we do and what is most important to us as we pursue our mission to support credit union success.

### The “Heart” of Alloya’s Strategic Plan People & Culture

Our *philosophy*, which each of our 180 professionals shares, is that we view ourselves as an extension of each credit union we serve. I’m continually impressed by the amount of work that is accomplished from a few, especially considering the scope of services provided to over 1,500 credit unions across the country. Employees are engaged and proud to work at Alloya. Our employee engagement score (as measured by the Gallup Q12 Employee Engagement Survey) in 2018 set a high mark for the corporate, 96 out of 100. Alloya’s values of Respect, Integrity, Service and Engagement create a culture that attracts and retains high performing staff that believe in our mission.

### Member Service

Our approach to member service begins with answering these questions: What is in the best interest of the credit unions we serve? And how can we simplify their operational lives? By placing the needs of the member first, we can understand what services, products and educational opportunities we need to deliver.



To help achieve this, on January 1, 2019, we launched a new Strategic Initiatives Group, which consists of high performing and experienced Alloya professionals from within the corporate that fully understand the mission of supporting credit union success.

The Strategic Initiatives Group will seek input from the membership, pursue innovation and identify opportunities for Alloya to provide even more value. Alloya's cooperative financial services model introduces endless opportunities as it connects with 1,500 credit unions and over 23,000 credit union staff daily. This team will help sort through the opportunities and identify the ones that provide the most value to the membership. The team will then provide leadership and project management support to ensure Alloya's high standards of implementation are maintained.

### ***Financial Performance and Compliance***

Alloya remains compliant with applicable rules, regulations and policies. Alloya is meeting its long-range capital 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 2018, we made progress against this goal by earning \$17.9 million.

### **Membership Value**

The corporate, since its official start in 2011, has remained steadfast in supporting credit union success and simplifying members' lives. We view ourselves as an extension of the credit unions we serve – honoring our business model, which is based on helping members realize efficiencies, so they can thrive in today's marketplace. This business model is consistent for liquidity, payment, technology and investment services offered through the corporate.

### **Advised Lines of Credit - \$45 million in annual value to the membership**

The cooperative financial model works. Some credit unions have cash and others need cash. Alloya serves as the efficient intermediary.

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 50-100 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.

### **Real-Life Examples of Member Value - Liquidity**

An Alloya member had been selling loans for several years and primarily worked directly with credit unions that they have relationships with. Over the last year, they experienced explosive loan growth, upwards of 30%, and they found it difficult to manage all the sales on their own.

“To manage liquidity and concentration limits, we found ourselves in a crunch to sell some loans before quarter-end – and Alloya certainly went above and beyond to assure that the sale would be completed in a timely manner. Not only did they meet our deadlines, they provided additional pricing mechanisms to execute the sale. With the help of Alloya, we've been able to formulate sales that are mutually beneficial to us and the buying credit union.”

- Credit Union's Chief Lending Officer



### Loan Participations

Whether a credit union needs to manage their liquidity (sellers) or diversify its assets (buyers), we can help credit unions achieve their goal.

Every credit union is unique – so a “one-size fits all” approach doesn’t work. To help meet credit union needs, we provide a customized solution to help facilitate the deal through its cycle by assisting with pricing, negotiation and analysis.

#### Alloya’s 2018 Loan Participations

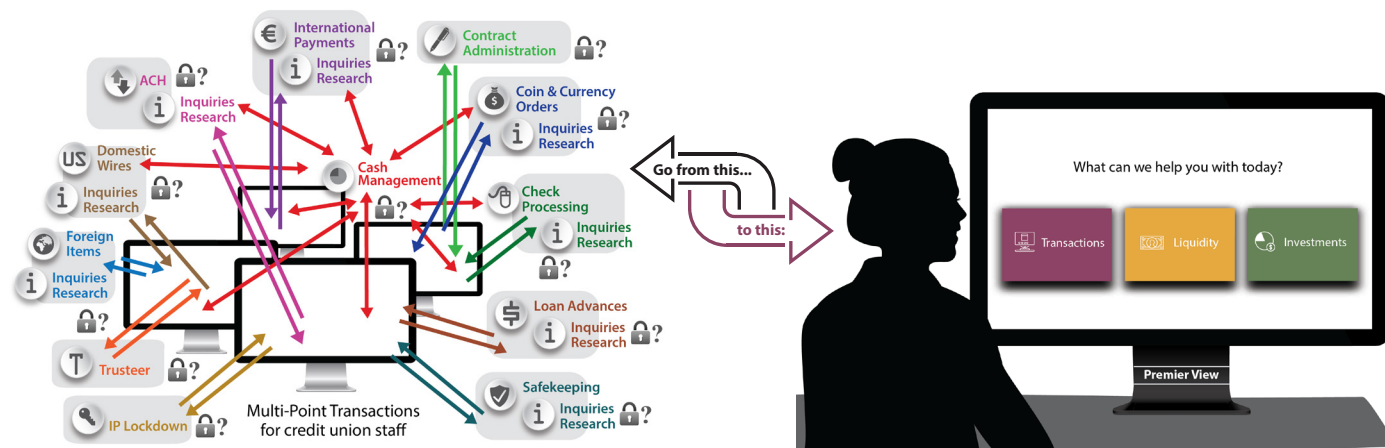
<b>30</b> Transactions	<b>\$2.9</b> million Average Participation
<b>\$88.2</b> million Total Participations Facilitated	

### Premier View and Member Service – Worth 2 FTEs for Every Member

Alloya strives to provide great technology that is supported by member service excellence.

**Premier View helps to simplify members’ lives.** Without Premier View and its single point of access and settlement, credit unions would need to establish multiple vendor relationships, maintain several financial accounts, and administer complicated procedures involving user access, security and segregation of duties. Fortunately, through membership, there is one location for all these transactions.

### Premier View Helps Simplify Daily Operations



**Without Premier View, Operations Can Be Complicated**

**With Premier View, Operations Become Simplified**

Throughout 2018, we made several operational enhancements, which were often driven by member feedback. We constantly look to evolve and strengthen Premier View as member needs shift. Many credit unions successfully transitioned to Premier View self-administration, which allowed them to take more control, thus streamlining operations and saving staff time. What does this mean? With corporate administration, credit unions are required to complete signed authorization forms when changes need to be made to any Premier View users. With self-administration, credit unions took control and made these changes directly. By making this switch, credit unions made their daily, single point of access and settlement portal an even stronger tool for their operations.

Over the next several months, we will be revamping Premier View – giving it a modern look and making its navigation even more intuitive.

**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 credit union's workstation/computer.

### Other Technology Updates

**Data Center:** Alloya is committed to keeping up with the changing demands of technology and ensuring that credit unions utilizing our services have the best experience possible. In April, we transitioned to a new data center, which offers an improved technology environment with a scalable and cost-efficient solution that meets capacity requirement with upgraded hardware. The new data center gives us leading power management, heating/ventilation/air conditioning (HVAC), fire suppression, physical security and top tier internet connectivity – *year-round*.

**Fraud Protection:** Throughout the year, we continue to see fraudulent attacks at all levels that impact credit union operations that ultimately impact the lives of countless natural-person members. To help combat that, Alloya has made available real-time and batch deposit fraud protection options that credit unions can utilize to provide an extra level of security against those attempting to commit financial crimes.



**In 2018, Alloya  
helped Members  
Save \$478,000  
in Potential Fraud Loss**

2018 Premier View Transaction Totals	
Corporate ACH	2,919,462
Member Adjustments	218,717
Domestic Wire In	189,456
Domestic Wire Out	187,390
Share-to-Share Transfer	109,523
Coin and Currency	89,584
Member-to-Member In	24,394
Member-to-Member Out	24,393
International Wire Out	20,547
Service Wire In	8,630
Service Wire Out	1,922
Share-to-Loan Transfer	10,070
Loan-to-Share Transfer	3,632
Cash Concentration Transfer	2,404
Corporate Wire Out	2,337
Security Purchase	1,465
Security Sale	421
Certificate Purchase (Regular)	1,097
<b>TOTAL</b>	<b>3,815,444</b>

In addition, thanks to Alloya's large volume of wire processing, we are positioned to identify fraudulent schemes and communicate these attempts back to credit unions. For instance, during 2018, there were reports of scammers luring targets with the false report that social security numbers (SSN) had been compromised. These scammers were asking targeted individuals to secure their SSN by wiring funds to a beneficiary of no know relation – and were often instructed to state a different purpose for the wire.

### Balance Sheet Solutions

During 2018, Balance Sheet Solutions, LLC – *Alloya's wholly-owned CUSO* – continued to provide advice, investment and risk management services to over 800 credit union clients.



The CUSO is the industry-leading resource for credit unions when they invest in marketable securities and certificates of deposit. Their team of credit union professionals, dedicated to serving the needs of credit unions, provide 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.

Balance Sheet Solutions has a new, easy way to provide credit unions with investment freedom – conveniently, all in one online location. During the fall of 2018, Premier Portfolio was introduced to credit unions as a new tool to help them perform many investment activities with a secure single sign-on through Premier View.



How can Premier Portfolio help make credit union investment activity easier? We will be constantly looking to grow and enhance this tool, but even in its early stages, the advantages are striking. Consider these three areas of distinction: **1. Easily view and buy offerings.** You're busy. You have a team to manage. You have members to keep happy. You have a board to answer to, and you need to ensure that your credit union is financially stable while juggling multiple vendors to complete your investment activities. So, why not add some flexibility to your busy calendar with the ability to conveniently review available security offerings and place orders right from your desk. Plus, connect directly into the SimpliCD website to make CD purchases. **2. Easily access documents and reports.** You can now conveniently view all your investment reports, including SimpliCD reports, pre/post trade analysis, bond reports and Callahan peer group analysis without having to go to multiple locations. **3. Easily access educational briefings.** Stay in the know with access to educational content that tracks economic trends, key releases and watches ongoing political developments. Daily Market Commentary and Weekly Relative Value can be found in the same location where you are completing your investment activities.

### Real-Life Examples of Member Value: Premier Portfolio = Efficiency

"Premier Portfolio is an amazing and easy tool to use in purchasing investments. We have immediate access to statements, online trading and the ability to look at all the offerings in one place. I highly recommend trying this out!"

- Credit Union's Finance Director

### Strengthening Communications & Service Navigation

Data collection has become a top priority for many industries, including ours, as we seek better ways to anticipate and respond to changes in the marketplace.

We have taken on this initiative to better serve members. When a situation unexpectedly arises, we want to act quickly to prevent an impact to your business. For example, a student loan processor and a data processor, with over 100 credit unions using mobile deposit capture, experienced unexpected shutdowns. As soon as we were aware of the problem, we called those impacted, helping them to navigate towards a solution. In some cases, Alloya can step in temporarily and offer continuity, and in other cases, we can refer members to our partners to reduce the impact. Depending on the situation, our response will vary, but our ability to identify which credit unions will be impacted is essential to offering immediate help.

### Educational Opportunities

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.



Credit Union Executive Leadership  
**SYMPOSIUM**

In its fourth year, the Credit Union Executive Leadership Symposium, hosted by Alloya Corporate FCU and Balance Sheet Solutions, brought together a record crowd of 184 credit union leaders from 137 credit unions, representing 5.6 million members across 18 states, supporting 15,000 professional credit union jobs.



This year's symposium featured keynote speaker, Mike Ditka. Years removed from his days as a tough minded head coach of the Chicago Bears, leading his team to victory at Super Bowl XX; and even more time away from his playing days, when he garnered the nickname of "Iron Mike" – Ditka still has the authoritative command and respect from an audience that anxiously waited to hear his experiences on and away from the football field.



His stories about football, family and business were inspiring – and focused on what he referred to as “A.C.E.” Attitude – “*You can’t achieve anything with a bad attitude.*” Character – “*Not only knowing what is right but doing what is right.*” Enthusiasm – “*Get excited about your opportunities.*”

### What Members Are Saying About the Symposium...

***“Over 38 years, I can’t say I’ve experienced a better credit union event.”***

***“What a healthy environment this is! From the beneficial sessions, meeting Alloya staff that I’ve interacted with on the phone and networking with credit union peers - I already feel like I’ve gained more than I thought possible by being here.”***

***“The symposium was a great value to me. It provided great speakers, a lot of relevant topics, future technology and a good amount of economic discussion.”***

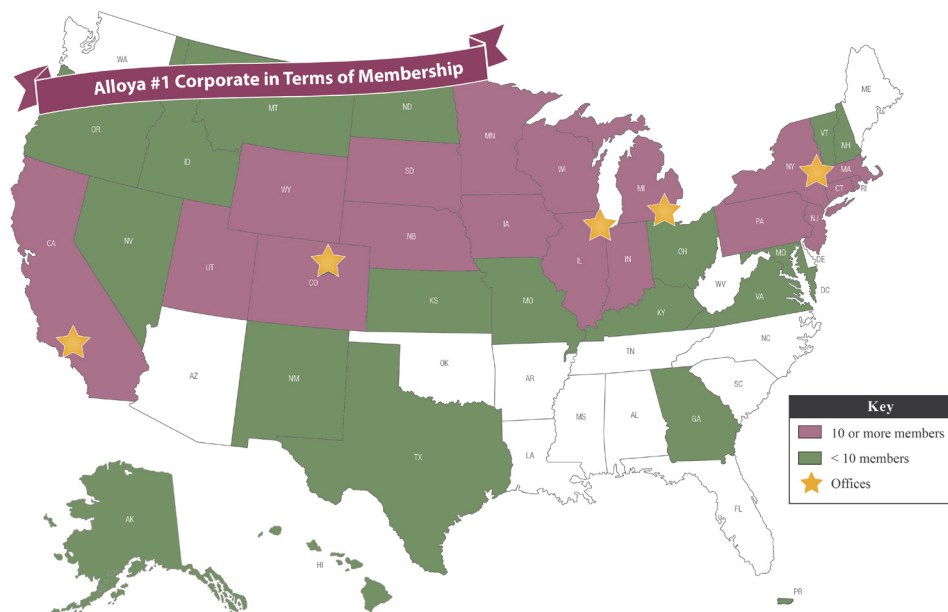
I encourage you to visit the symposium’s Daily Wrap-Up feature to read more about this event at [www.alloyacorp.org/symposium-2018-recap](http://www.alloyacorp.org/symposium-2018-recap) – and I look forward to seeing you at our fifth annual event in September. (For additional education highlights, see page 11.)

## Concluding Comments

Alloya continues to represent 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.

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. While planning for 2019,



our consensus was that there may be increased headwinds for the United States economy in 2019 and 2020. This may bring challenges that we are not able to forecast, but I am confident that credit unions and their member-focused cooperative model will continue to realize a bright future.

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

Sincerely,

**Todd M. Adams**  
Chief Executive Officer

*For financial and operational highlights, see next page.*

## Operational and Key Product Highlights

Financial Highlights - as of 12/31/18	
Net income	\$17.9 M
Retained earnings and other equity	\$95.9 M
Total GAAP equity	\$332.8 M
Total assets	\$3.0 B

Ratios - as of 12/31/18	
Retained earnings and other equity ratio	3.01%
Regulatory capital ratio (NCUA requirement of 4.0%)	10.3%

Key Product Highlights as of 12/31/18	
Advised Lines of Credit	\$9.63 B
Number of line advances	16,240
Total advances	17.4 B
Percentage of credit unions taking an advance	58.2% (873)
Loan Participation Program	
Number of deals supported	30
Dollar amount	\$88.2 M
Shares and certificates of deposit	\$2.6 B
EBA program	\$1.9 B
Checks processed	170 M for \$125 B
ACH transactions	166.6 M for \$172 B
Coin & Currency	
Coin & currency deliveries completed	89,589
Total coin & currency delivery value	\$11.9 B
Wires processed	421,767 for \$86,189,502,687.00

Balance Sheet Solutions	
Investment Accounting	
Number of credit unions	114
Number of investment positions	11,000
Par value of the positions	\$6.6 B
Marketable securities	gross par value of \$5.0 B
SimpliCD	
CD sales	\$1.2 B
Funds raised through the CD issuance program	\$0.8 B

**Operational and Key Product Highlights** *(continued)*

<b>Technology and Call Center Highlights</b>	
Premier View	
Number of users with authorities in the system	23,498
Number of pages accessed each year	41.7
Line of code supported	>1 million
Member Call Center	
Calls completed <i>(incoming &amp; outgoing)</i>	72,297 <i>(incoming)</i> ; 44,186 <i>(outgoing)</i>
Average wait time to answer	3.5 seconds
Abandon rate	0.18%

<b>Educational Outreach</b>	
Strategic webinars	11 with 820 attendees
Operations webinars	175 with 763 attendees
Symposium attendees	184 from 137 credit unions - 18 states
Roundtables (Alloya)	3 events with 48 attendees from 36 credit unions
Garden State Summit	23 attendees
Tradeshows	28
Speaking sessions	39 <i>(includes our own hosted events with each of those events counted once)</i>
Focus groups	3 events with 32 attendees
Continuing Professional Education (CPE) <i>(includes Alloya &amp; Balance Sheet Solutions events)</i>	Available at 9 events; 55.5 total credits offered; average 6.2 per event
<b>Balance Sheet Solutions</b>	
Roundtables (BSS)	3 events with 53 attendees from 42 credit unions
Economic & Investment Conference	106 attendees from 56 credit unions
ALM Workshop	1 event with 12 attendees from 10 credit unions