

# Supporting Credit Union Success

**REPORT TO THE MEMBERSHIP**

*2021 in Review*

Our job is to make your job easier.



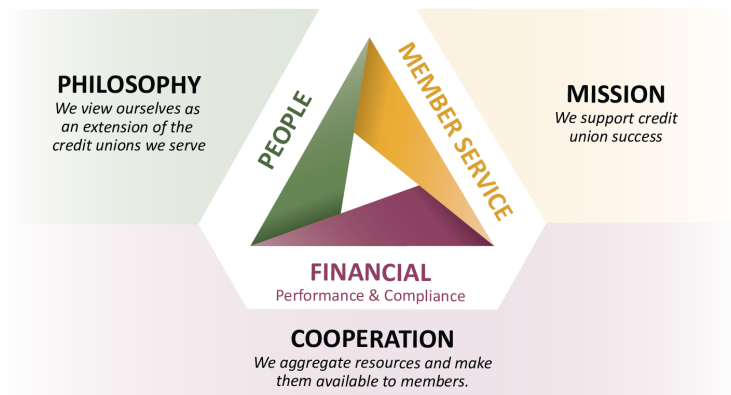
## THE WORLD IS FILLED WITH GOOD PEOPLE

Over the last two years as the world has battled the COVID-19 pandemic, we have been inspired by our membership and the positive impact each credit union has made on its community and the financial lives of its members.

Building on the momentum of 2020's well-received Alloya CARES Credit Union Grant Program, we decided to celebrate Alloya's 10-year anniversary by launching a "10 for 10 for 10" campaign.

Over the 10 business days preceding the corporate's tenth anniversary on October 24, 2021, Alloya randomly selected one member-nominated charity per day to receive a \$10,000 donation.

### The Heart of Alloya's Strategic Plan



These initiatives, along with Alloya's continuing employee donation matching program, provided stories that were humbling, heartwarming and inspirational, and illustrate that the world is filled with caring people, particularly within the credit union community.

### BRIGHTER TOMORROWS, INC.

Nominated by Mayo Employees Federal Credit Union (MEFCU) in Rochester, MN



Brighter Tomorrows believes that every family who has been touched by a childhood cancer diagnosis deserves a compassionate, loving support system. Their mission is to welcome parents, caregivers, children, family and friends to share experiences, provide resources and offer breaks from the rigors of a cancer journey. MEFCU has long supported Brighter Tomorrows and during the last two years, the credit union has played an integral part in sustaining the events and gatherings that help families feel supported and encouraged despite pandemic-related obstacles.

### BEST BUDDIES INTERNATIONAL

Nominated by Prairieland Federal Credit Union in Normal, IL



Best Buddies is a nonprofit organization dedicated to establishing a global volunteer movement that creates opportunities for one-to-one friendships, integrated employment, leadership development and inclusive living for individuals with intellectual and developmental disabilities. Prairieland Federal Credit Union said Best Buddies is "dear to [their] hearts" and nominated the charity due to the credit union's firm belief in inclusion for all.

### FINN FOUNDATION INCORPORATED

Nominated by Michigan Educational Credit Union (MECU) in Plymouth, MI



Finn Foundation aims to support traumatic brain injury survivors through donations, education and connection among the traumatic brain injury community. The foundation was formed by the family of Kevin Finneran, the CFO of MECU, after his son Ryan was involved in a serious auto accident during his senior year of high school that resulted in a traumatic brain injury. Finneran remarked, "We lived firsthand what is involved with these types of injuries and are fortunate that our son mostly recovered so we started this foundation to give back to families facing similar crises."

**AMERICAN HEART ASSOCIATION IN DALLAS, TX**

Nominated by an Alloya Employee



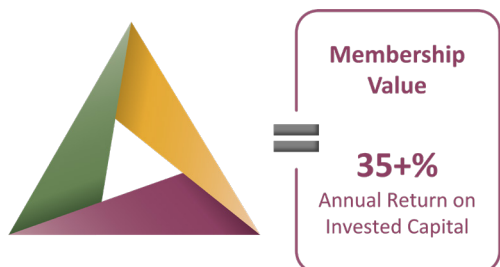
In memory of her mom, an Alloya employee requested a match from Alloya for her donation to the American Heart Association. She wrote, “Heart disease is still the leading killer of women and stroke is number four, impacting about 55,000 more women than men each year. It’s so critical to keep lifesaving research and medical breakthroughs moving forward – because heart disease and stroke can impact anyone at any age. You... me... loved ones. Protecting more moms, dads, brothers and sisters.”

**FOX CHASE CANCER CENTER IN PHILADELPHIA, PA**

Nominated by an Alloya Employee



An Alloya employee’s father was diagnosed with stage four small cell lung cancer at the young age of 55 in June 2020. “At the time, he was given a life expectancy of three to six months,” the employee shared. “Thanks to the amazing doctors and staff at Fox Chase, he doubled his life expectancy and lived 7.5 months from diagnosis. In that time, my dad was able to attend my grad school graduation as well as walk me down the aisle at my wedding. That is a memory I will cherish forever as that is something a girl dreams of her whole life and I will forever be grateful for all Fox Chase did for my family and me during such a difficult time.” The employee indicated that her donation and Alloya’s match will be used by Fox Chase to further research small cell lung cancer and work toward a cure.

**THE VALUE OF ALLOYA MEMBERSHIP**

What if Alloya were a for-profit company owned by private equity investors or a publicly traded company owned by stockholders, rather than a cooperative owned by credit union members? Would Alloya be a good investment opportunity for these private equity investors? How much would a private equity company charge for the same services that Alloya offers for free or at significantly reduced rates?

**ADVISED LINE OF CREDIT VALUE**

Let’s start with Alloya’s Advised Line of Credit that provides each member with access to a reliable liquidity source. A publicly traded bank would charge 50 to 100 basis points to gain access, while Alloya provides access for free despite the significant expense of performing credit work, monitoring usage and ensuring cash is available to meet demands.

**Annual Member Value = \$10 billion x 50 basis points = \$50 million**

**SIMPLIFYING BACK-OFFICE OPERATIONS**

At Alloya, we simplify credit unions’ back offices by acting as an extension of every credit union member. Many of the services we provide are delivered at a low cost or even free. Private equity and for-profit companies would levy a significant fee for these services.

For instance, 800 credit unions are spared from hiring an additional employee to manage their cash vault and delivery service because they leverage the three dedicated Cash Services professionals on staff at

Alloya. This same model applies to ACH, check processing, wires and loan participations to name a few. In addition, Alloya's investment accounting services, bond analysis/pricing services and education programs are greatly subsidized or provided free of charge.

By simplifying credit unions' back-office operations, we believe Alloya is worth at least one-quarter of a full-time employee to each credit union member (and for many members, this value is closer to two full-time employees).

**Annual Member Value = 1,400 Credit Unions x ¼ Employee at \$50,000 = \$17.5 million**

### SUBSIDIZED ACCESS TO PREMIER VIEW

Correspondent banks charge commercial customers a monthly fee to maintain a settlement account and access their technology. At Alloya, the cost to use our one-stop transaction system, Premier View, is much lower than the fee of a for-profit bank. In addition, Premier View offers members access to a more expansive menu of services than a credit union could find anywhere else in the market. Meanwhile, correspondent banks charge upwards of \$250/month for this relationship.

**Annual Member Value = 1,400 Credit Unions x \$150 Monthly Savings = \$2.5 million**

### CORE CASH DIVIDENDS ON MEMBERS' PERPETUAL CONTRIBUTED CAPITAL

Alloya has continued to pay the highest Perpetual Contributed Capital (PCC) dividends of any corporate credit union.

**Annual Member Value = \$250 million of PCC x 2.25% Core Cash Dividend Rate = \$5.5 million**

### OWNERSHIP INTEREST IN RETAINED EARNINGS ACCUMULATION

As a cooperative, credit unions own Alloya and any increases to retained earnings accrue to the benefit of our membership. Alloya has been growing retained earnings at approximately \$10 million per year.

**Annual Member Value = \$10 million**

### 35% ANNUAL RETURN TO MEMBERS

When these value totals are combined, we find that Alloya's business model – *powered by the principles of cooperation* – is estimated to provide member credit unions with \$85 million of annual value, representing an annual return of nearly 35% on the \$250 million of outstanding member PCC. If Alloya were a private equity-owned company, it could be safely assumed that this value would accrue to the stockholders, not member credit unions.

**Total Annual Member Value = \$85 million**

## 55% ANNUAL RETURN TO MEMBERS IN 2021

At the end of the first quarter, Alloya received a partial distribution from the U.S. Central Asset Management Estate (AME) and responded by waiving all monthly fees for credit unions' March 2021 service activity. When credit unions received their billing statement in April, it contained a credit titled *Fee Holiday-Supporting Credit Union Success*. Later in the year, Alloya received another partial distribution from the AME and elected to pass on significant value to the membership in the form of a \$49.1 million dividend titled *Supporting Credit Union Success* through a 20% special dividend on PCC as of August 31, 2021.\*

**Total Annual Member Value in 2022 = \$135 million**

In a “normal” year, credit union members realize a 35% return on their invested capital at Alloya. But as summarized above, 2021 was not a normal year; it was an extraordinary year as member credit unions realized a 55% return on their invested capital!

As we look to 2022, we plan to continue working toward Alloya's 4% retained earnings goal while maintaining our 2.25% dividend rate on PCC – the highest core dividend rate on PCC paid by any corporate. As the corporate continues to advance towards its goal, we will continue to return as much value as possible to the credit unions we serve.

If you would like to review a personalized statement of the value of your Alloya membership, we would be pleased to prepare a Member Value Statement for your credit union. In addition to uncovering the value of your membership today, you can discover new ways to maximize your membership to reap the highest possible value in the future. Please contact your Alloya representative for more information.

\*In anticipation of this distribution, Alloya's Board of Directors declared a record date of March 17, 2021 for any special dividends associated with receipt of U.S. Central AME funds on Alloya's PCC. As a reminder, Alloya held no interest in the Members United or Southwest Corporate AMEs.

## STRATEGIC PLAN UPDATE

In pursuing our mission to support credit union success, Alloya's long-term strategic goals are to advance People and Culture, Member Service, and Financial Performance and Compliance. In a good year, we make progress against each of these goals, but once again, 2021 represented an outstanding year for Alloya.

### PEOPLE & CULTURE

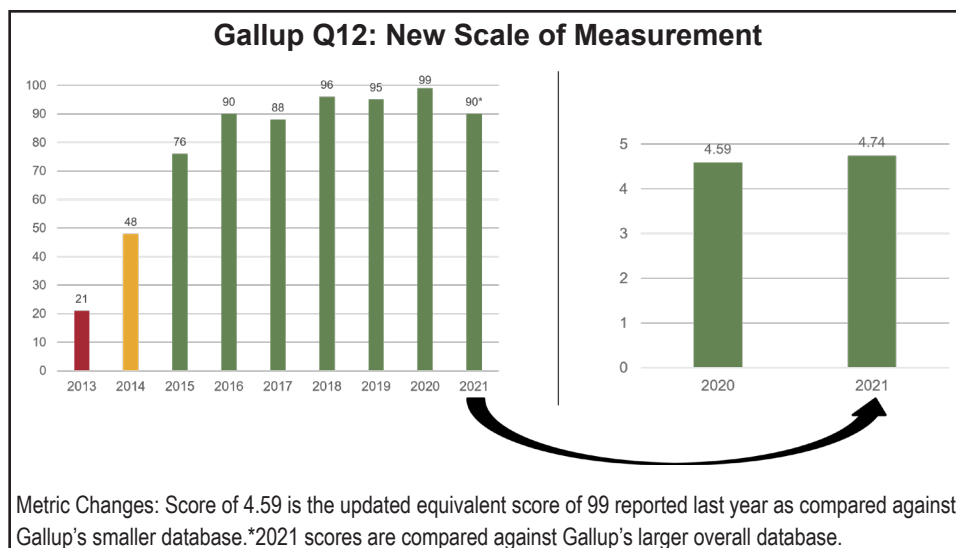
Alloya's team of 160 professionals view themselves as an extension or, said differently, another department of the credit unions we serve. Alloya continues to hire, retain and promote staff that aspire to the values that are held by the organization: Respect, Integrity, Service and Engagement.

In a year that the media called, “The Great Resignation,” Alloya's retention rate was 98.5%. This particular metric demonstrates that Alloya is maintaining a strong team of people who are doing work that is aligned with their skills and interests, and who truly believe in the power of cooperation and “people helping people.”

**“In a year that the media called, ‘The Great Resignation,’ Alloya's retention rate was 98.5%.”**

In addition to the retention metric, Alloya also benchmarks its culture against other organizations using Gallup's Q12 Employee Engagement Survey.

People and Culture have come a long way since the days following the Great Financial Crisis. Today, Alloya remains a top-tier employer of choice, and our team of professionals is engaged and focused on the mission to support credit union success.



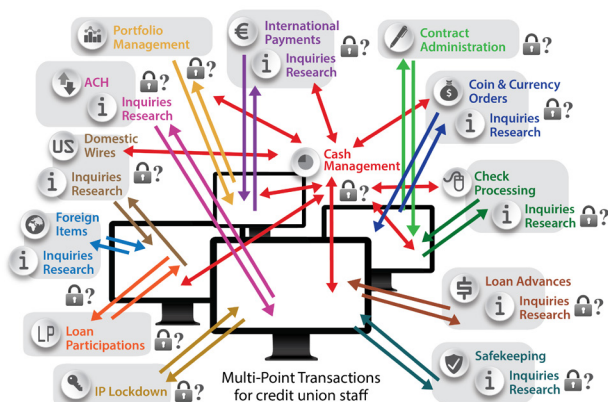
## MEMBER SERVICE

Alloya's primary Member Service goal is to simplify credit unions' operational lives so our members have more time to focus on serving their communities. In pursuit of this goal, we leverage a two-pronged strategy:

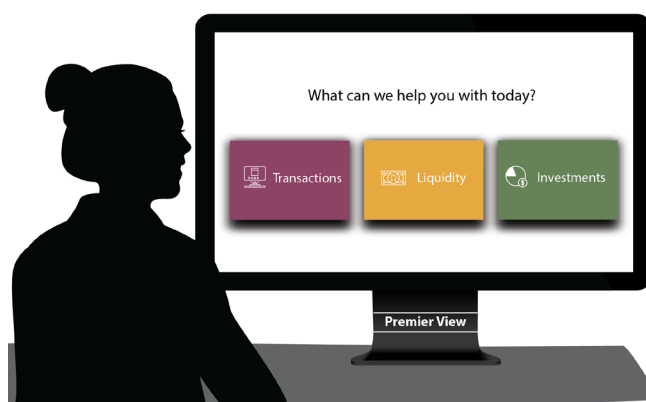
1. We offer a leading-class technology, Premier View.
2. We deliver personalized service that complements the technology.

While most transactions can be completed through Premier View, when a credit union calls Alloya, one of our professionals will answer the phone within four seconds, on average. If our team is unable to resolve the issue during the call, a service ticket is created and followed until resolution.

**Without Premier View, a credit union's back-office operational life may look like this....**



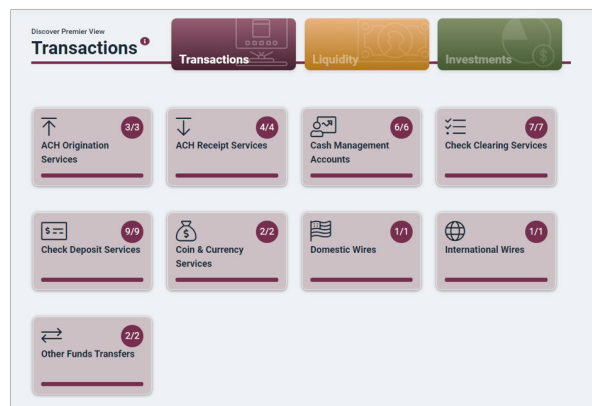
**With Premier View, it looks like this...**



Next, we will reflect on a few strategic highlights from 2021 that supported our pursuit of delivering the highest standards of service to our members.

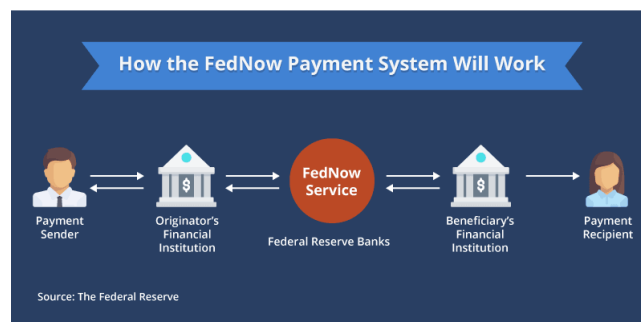
## ADVANCING PAYMENT SOLUTIONS

**ACH Services Migration** – After overcoming the most significant operational challenge of Alloya’s lifetime in 2020, we announced in January 2021 that we would migrate all credit unions processing ACH with Alloya to a new ACH Services system in June. The new system, hosted by Aptys Solutions, LLC – a payments fintech that Alloya acquired in June 2020 – boasts innumerable benefits, including a modern, fast and user-friendly interface, resilient and secure environment, step-by-step wizard software for ease of use, robust reporting and reconciliation tools and more. On June 12, 2021, Alloya transitioned over 800 credit unions to the new ACH Services system.



**Strategic Partnership with TruLync** – TruLync, a wholly owned subsidiary of the Minnesota Credit Union Network (MnCUN), entered a strategic partnership with Alloya in February 2021 under which Alloya acquired the subsidiary’s item processing services. As check volumes steadily declined over the past decade, TruLync began to evaluate its strategic options that would ensure a long-term check processing solution for its credit union users. Alloya’s Check Services proved to be just that! Through this partnership with TruLync, Alloya welcomed 88 new credit unions to its check processing platform this year.

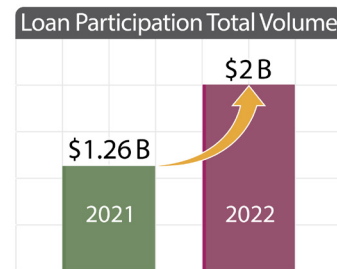
**FedNow<sup>SM</sup> Pilot Program** – In January, Alloya was selected to participate in the Federal Reserve’s pilot program for its upcoming instant payments offering, the FedNow<sup>SM</sup> Service. This service will enable credit unions to offer innovative payment solutions to meet the growing demand for instantaneous funds settlement. The pilot program is designed to support development, testing and adoption of the FedNow Service as well as encourage development of services and use cases that leverage FedNow functionality. Through Alloya’s direct involvement in the FedNow pilot program, we have the opportunity to shape features and functions, provide input into the overall user experience, ensure readiness for testing, and be first to experience FedNow during the closed loop production phase prior to go-live. In addition, Alloya’s involvement enables us to advocate on behalf of credit unions while also ensuring that the FedNow Service is designed to support credit union operations. The pilot program kicked off in February 2021 and the FedNow Service is slated to launch in 2023.



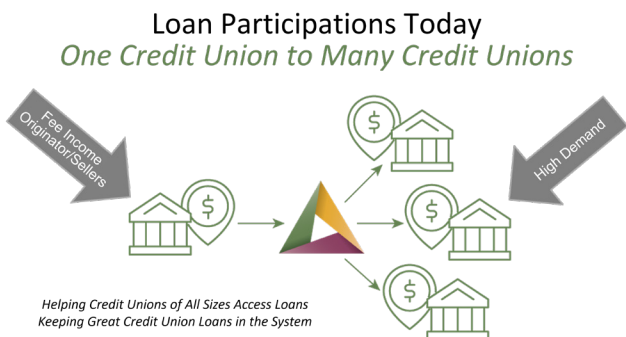
In anticipation of this launch, Alloya is working with Aptys Solutions to prepare the necessary infrastructure to facilitate the real-time gross settlement for the FedNow Service on behalf of our members through the correspondent relationship we have with the Federal Reserve. This means Alloya members will be able to settle 24x7x365 through their Alloya accounts.

## ADVANCING CAPITAL MARKET SOLUTIONS

**Surging Engagement on the Loan Participation Platform** – In last year’s report, we announced the launch of Alloya’s Loan Participation Platform and its goal to open up the loan participation market to credit unions of all sizes. Since the launch of our online Loan Participation Platform, we have facilitated nearly \$1 billion in loan participations.



These figures are significant because they represent more than just the effectiveness of our Loan Participation Platform. They speak to the success of the cooperative business model. At its core, Alloya strives to leverage the power of cooperation to bring together an expansive network of credit unions to help each organization achieve its respective goals.



**New Subordinated Debt Program** – Recent turbulence in the economy and markets has prompted many credit unions to turn to subordinated debt to strengthen their balance sheet and net worth while providing the flexibility to grow and attain strategic goals. However, the process of issuing or investing in this instrument can be expensive, time-consuming and complicated.

Alloya identified a need for a cost-effective, full-service solution for credit unions, so we introduced a new offering to our product mix: the Subordinated Debt Program. The “all-in” fee structure of the program allows credit unions to “hand over the hard parts” to Alloya and its partners, McQueen Financial Advisors, LLC and Luse Gorman, PC. Credit unions are able to leverage the strength of each party to receive regulatory approval, manage legal risks and lower costs as compared to working with investment banks or multiple individual providers that traditionally service credit unions looking to issue or invest in subordinated debt. In the short lifetime of this new product, we’ve began working with 10 credit unions to help them fulfill their balance sheet needs.



## NEW EDUCATIONAL OPPORTUNITIES

**Launch of Link** – In 2021, we rang in the new year with a new virtual education series, titled Link. The series replaced and expanded upon Alloya’s previous monthly webinar series, Connection, to deliver an enhanced, more engaging and more sophisticated virtual education experience. To date, Alloya has presented 16 Link events free of charge to credit unions.



**Launch of LP Quarterly** – Alloya has published a variety of publications for many years – from the *Weekly Relative Value* to the monthly *Economic Update* to the monthly *Alloya Update* newsletter to the *Daily Commentary* and beyond. This year, we introduced another free publication with the *LP Quarterly*. In support of Alloya’s ongoing mission to support credit union success, our experts are writing a quarterly loan participation newsletter to make credit unions’ portfolio decisions easier. The inaugural issue was published in July 2021 and the second edition debuted in mid-October.

**First Hybrid Symposium** – After celebrating the Credit Union Executive Leadership Symposium virtually in 2020, it was uncertain how the 2021 event would return for its seventh year. In preparation for Alloya’s 10-year anniversary celebration, we had made plans to resume the in-person event in Las Vegas. But after having so much success with our virtual event in 2020 and our Link series throughout 2021, we made a big and bold decision as we closed in on the 2021 Symposium by going hybrid. We decided to present the Symposium in person and virtually to give our members options, as individuals had varying levels of comfort with traveling to a conference. In total, Alloya welcomed 179 attendees from 118 credit unions to our in-person event in Las Vegas and bridged the distance with 65 more attendees from 52 credit unions through the virtual portion. All attendees had the opportunity to hear from Daymond John, founder and CEO of FUBU and star of ABC’s *Shark Tank*; Sugar Ray Leonard, legendary boxing icon and Olympic gold medalist; and Janine Stange, the so-called “National Anthem Girl.” In-person attendees also enjoyed a selection of breakout sessions and Football Night with Alloya at Allegiant Stadium, home of the Las Vegas Raiders. All in all, the event was a huge success, and we look forward to continuing the tradition of a hybrid Leadership Symposium in 2022 as the in-person event returns to Chicago.



## RECORD MEMBERSHIP GROWTH

In part due to the Loan Participation Platform and the strategic partnership with TruLync, Alloya welcomed more new members this year than ever before outside a merger year. In total, 91 credit unions joined our cooperative family in 2021 and we look forward to continued expansion in 2022 and beyond – because the growth and success of Alloya translates to the success of the membership.

## FINANCIAL PERFORMANCE & COMPLIANCE

Alloya’s financial goals are to remain safe, secure and relevant to our membership, now and in the future. Below are a few financial highlights from 2021 that underscore our commitment to these goals.

- Core net income of \$14.7 million
- Total net income of \$134.7 million (when including the U.S. Central AME refund)
- \$7.1 billion in assets
- \$6.4 billion in excess balance accounts
- \$3.0 billion in cash and short-term investments
- \$254 million of perpetual capital shares
- \$5.6 million of dividends plus another \$49.1 million of special dividends paid on members perpetual capital shares (22.25%)
- Full compliance with all applicable rules and regulations

## CONCLUDING COMMENTS

### NEW CHAIRPERSON FOR ALLOYA'S BOARD OF DIRECTORS

Alloya is fortunate to be governed by a talented Board of Directors that consists of credit union leaders from across its membership base. On December 9, 2021, Alloya appointed the fourth Chairperson of its Board of Directors, David B. Suvall, President and Chief Executive Officer of Rhode Island Credit Union in Providence, RI. David, who most recently served as the board's Vice Chairperson, follows in the footsteps of Floyd Rummel, III, Chief Executive Officer of Northern Hills Federal Credit Union in Sturgis, SD. Both Floyd and David have faithfully served on Alloya's board since the corporate's inception, and I would like to express my sincere gratitude once again to them and the other directors, who generously volunteer their time and expertise to further advance Alloya's mission.

### THANK YOU FOR YOUR CONTINUED SUPPORT

In summary, I truly believe that the world is filled with good people, that care about one another and want peace and prosperity for all. Look no further than your local credit union to find an amazing example of this belief in action.

Alloya experienced another outstanding year as the heart of our strategic plan continued to beat strongly. Alloya remains a top-tier employer of choice, advanced its mission to support credit union success, met or exceeded all financial goals, and remained compliant with all rules and regulations.

It is among one of the greatest honors of my life to serve as CEO of Alloya. I believe in credit unions, I believe in Alloya's mission to support credit union success and I believe our collective future remains bright. Thank you for your continued support and I wish each of you the best in 2022.

Sincerely,

**Todd M. Adams**  
Chief Executive Officer

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

## Operational and Key Product Highlights

Financial Highlights - as of 12/31/21	
Net income	\$134.7 M
Retained earnings and other equity	\$209 M
Total GAAP equity	\$468 M
Total assets	\$7.1 B

Ratios - as of 12/31/21	
Retained earnings and other equity ratio	3.55%
Regulatory capital ratio	7.57% (NCUA well-capitalized requirement of 5.0%)

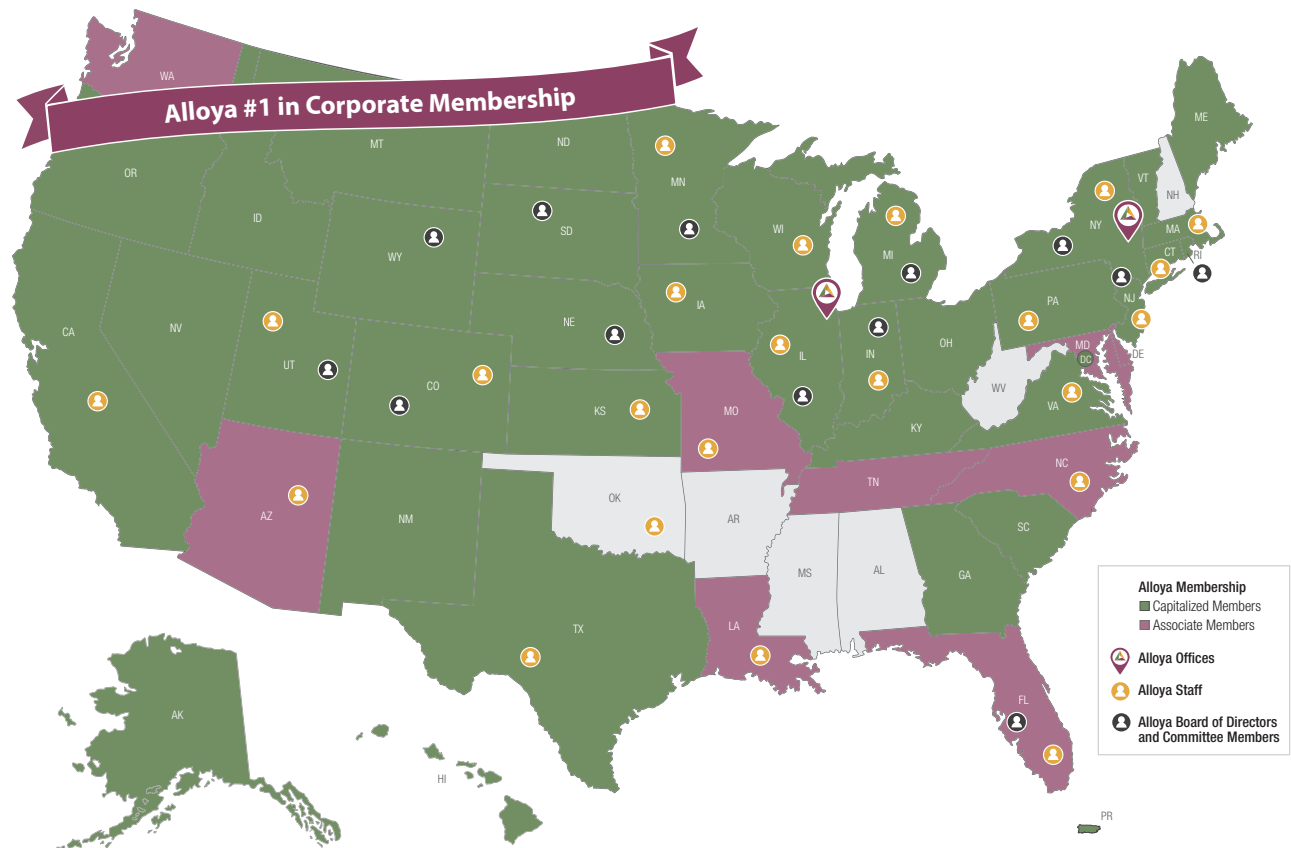
Key Product Highlights - as of 12/31/21	
<b>Loans</b>	
Loans outstanding	\$253.5 M
Advised Lines of Credit	\$10.8 B
Number of line advances	2,908
Total advances	\$2.5 B
Percentage of credit unions taking an advance	45% (584 members)
<b>Loan Participation (2021)</b>	
Number of deals supported	110
Average participation	\$4 M
Dollar amount	\$781 M
<b>Loan Participation (in aggregate)</b>	
Number of deals supported	360
Average participation	\$3.2 M
Total volume	\$2 B
<b>Shares</b>	
Shares and certificates of deposit	\$6.6 B
EBA program	\$6.4 B
<b>Transactions</b>	
Checks processed	136 M for \$153 B
Check Clearing Services	79 M for \$73.7 B
Check Deposit Services	57 M for \$78.8 B
ACH transactions	170 M for \$225 B
Coin & Currency deliveries completed	84,471 for \$11.8 B
Wires processed	482,294 for \$110.9 B

Operational and Key Product Highlights *(continued)*

Key Product Highlights as of 12/31/21 <i>(continued)</i>	
Alloya Solutions, LLC / Alloya Investment Services*	
Investment Accounting	
Number of credit unions	139
Number of investment positions	18,000
Par value of the positions	\$11.7 B
Marketable securities	Gross par value of \$4.3 B
SimpliCD	
CD sales	\$1.2 B
Funds raised through the CD issuance program	\$316 M
Technology and Call Center Highlights	
Premier View	
Number of users with authorities in the system	25,444
Number of pages accessed each year	105 M
Line of code supported	1.9 M
Member Call Center	
Calls completed <i>(incoming &amp; outgoing)</i>	95,270
Average wait time to answer	3.49 seconds
Abandon rate	0.06%
Tickets completed	13,646
Responses to member emails <i>(per year)</i>	6,717
Premier View Transaction Totals	
Corporate ACH	2,499,827
Member Adjustments	209,589
Domestic Wire In	201,712
Domestic Wire Out	234,906
Share-to-Share Transfer	100,497
Coin & Currency	84,405
Member-to-Member In	21,965
Member-to-Member Out	21,965
International Wire Out	23,769
Service Wire In	9,185
Service Wire Out	2,164
Share-to-Loan Transfer	2,049
Loan-to-Share Transfer	405
Cash Concentration Transfer	1,536
Corporate Wire Out	2,335
Security Purchase	5,469
Security Sale	437
Certificate Purchase <i>(regular)</i>	2,711

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

Educational Outreach	
Education Webinars	
Link Events	14 / 1,969 attendees
Special Webinars	5 / 728 attendees
Training Webinars	114 / 976 attendees
Symposium Attendees	In-person and virtual: 245 attendees from 164 credit unions / 26 states
Other	
Dollar amount Alloya saved members in fraud loss	\$658,983 recovered / \$1.2 M prevented
Number of fraud attempts caught and prevented	46



*\*Alloya Investment Services is a division of Alloya Solutions, LLC (a wholly owned CUSO of Alloya Corporate FCU). All broker-dealer transactions are facilitated through CU Investment Solutions, LLC (ISI), member FINRA/SIPC. SimpliCD is a product offered by Alloya Investment Services' partnership with Primary Financial.*



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