2014 annual report

Investing and innovating to sustain our mission

ALLIANT℠
credit union

TABLE OF CONTENTS

1 MESSAGE FROM THE CHAIRMAN AND PRESIDENT

4 ALLIANT HIGHLIGHTS OF 2014

6 LOOKING AHEAD TO 2015 AND BEYOND

7 CONTRIBUTING TO OUR COMMUNITIES

8 PERFORMANCE TRENDS

10 FINANCIAL STATEMENTS

MESSAGE FROM THE CHAIRMAN AND PRESIDENT

Ed Rogowski
Chairman

David W. Mooney
President/Treasurer

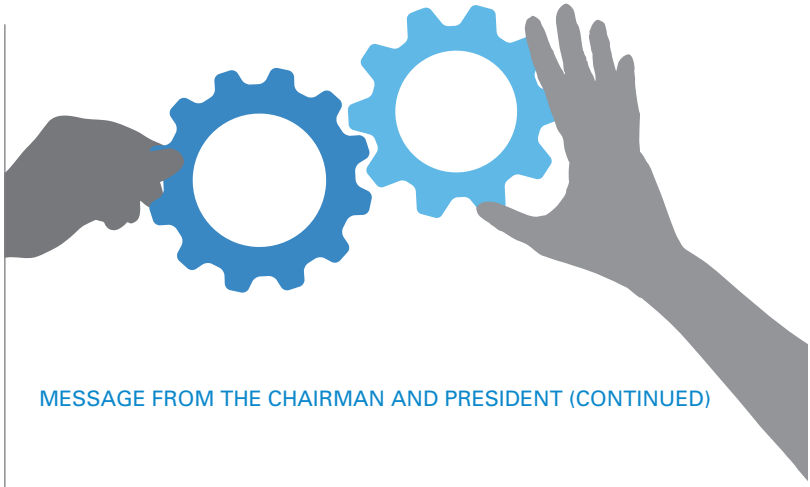
In 1935, a group of United Air Lines employees came together to create a financial cooperative with the purpose of providing a safe place to save and borrow at fair rates. Much has changed in the 80 years since, both in the financial services marketplace and at Alliant. What hasn't changed is Alliant's member-focused mission:

> *To provide members with consistently superior financial value and friendly, efficient, personalized service.*

Throughout its history, Alliant has been known for its high liquid savings rates. These returns were achieved by investing the bulk of our assets in low-risk, fixed-income securities and keeping expenses extremely low through a combination of limited offerings, closed field of membership, an efficient operating model and frugality. The Credit Union resembled a money market fund, providing savings yields that paralleled short-term market interest rates.

While for many years the approach had served the Credit Union and its members well, economic disruption and market developments in the past two decades revealed its vulnerabilities.

First, high quality fixed income investments produce relatively low yields, particularly in low interest rate environments. The proposition was also heavily skewed in favor of savers; the Credit Union wasn't serving the needs of its many borrowing members. Finally, members expected convenience and service, including 24/7 telephone access, ubiquitous ATMs, and online and mobile banking services.



More recently, Alliant has balanced the proposition between savers and borrowers and increased its lending to members, with benefits to both. All things equal, Alliant earns more from a loan than from an investment, producing more income to support dividends. Loans grew by 18% in 2014, reaching $4.8 billion at year-end. Reversing the trend of the past several years, Alliant's average yield on earning assets increased by 0.48%. This drove a 24% increase in interest income, supporting savings and Certificate rate increases later in the year.

Alliant's "giveback" to members remains in the 95th percentile of credit unions nationally. During 2014, our savings dividend was more than five times the bank and credit union average, and borrowing rates were consistently among the best in the market. We know that members are increasingly comparing our rates to those offered by "direct" (internet) banks. While Alliant won't always beat those providers, we are committed to offering comparable returns.

Alliant has also made sizeable investments in enhancing convenience and service. In 2004, we added 24/7 call center availability, and since then have continued to upgrade phone systems and capabilities. Alliant was one of the first financial institutions to offer remote image deposit service. We have continued to expand online and

mobile functionality, and have initiatives underway to upgrade our website and mobile banking service. We offer a network of over 80,000 surcharge-free ATMs, and recently introduced ATM Rebates. We've started implementation of a Customer Relationship Management (CRM) system and new consumer loan origination system to support improved service delivery. And we continue to make numerous infrastructure investments to improve functionality, reliability and security.

That is not to say that we have abandoned our low-cost strategy. We recognize that low operating costs are a valuable financial and strategic advantage. Alliant's operating expenses as a percentage of assets are still more than 60% below those of the average bank and credit union.

Alliant's members are justified in expecting a lot from us. We are a cooperative institution whose only purpose is to serve the interests of you and all our member-owners. We realize you have many alternative providers to choose from. As we enter our 80th year, we remain committed to earning your business by providing exceptional value and service.

Ed Rogowski
Chairman

David W. Mooney
President/Treasurer

Alliant Highlights of 2014

Financial

- Alliant raised the savings dividend from 0.70% APY to 0.80% APY in October. Throughout 2014, our savings dividend averaged 59 basis points higher than the credit union average, up from a 56 basis point advantage in 2013
- Introduced ATM Rebates, providing members with significant savings and enhanced convenience
- Originated over $2.3 billion in loans, 21% more than in 2013
- Savings deposits declined by 1% from 2013. Certificate deposits were down 9% as savers favored liquid deposits in anticipation of rising rates
- Checking balances grew by a healthy 8%
- Interest income increased by $38.6 million, or 24% from 2013. The yield on interest earning assets increased by 48 basis points year-over-year, reflecting a shift in mix from lower yielding investments to higher yielding loans
- Non-interest income, excluding securities gains and losses, increased by 3% to $19.5 million
- Total assets ended the year at $8.1 billion, slightly down from 2013 year-end
- Net loan balances at year-end were $4.8 billion, an increase of $721 million or 18% from 2013
- Loan-to-share ratio stood at 71.3% at year-end, up from 60.1% in 2013, and 47.5% in 2012
- Net income was $70.5 million, $30.8 million or 78% above 2013
- The net worth ratio stood at 11.32% at year-end, up from 10.42% at year-end 2013
- Non-interest expenses of $85.3 million were 5% greater than in 2013, driven by higher consumer lending volumes and accelerated spending on strategic initiatives and foundational investments
- Provision for loan losses of $11.1 million was 19% higher than in 2013, continuing to reflect a benign credit environment. Loan delinquency and charge-off rates remained below credit union and bank industry averages
- Alliant remained above the 95th percentile in efficiency among credit unions after seeing operating expense/assets increase to 1.11% for full year 2014, from 0.99% for 2013

Non-Financial

- Once again, Alliant earned the highest ratings for safety and soundness in state and federal regulatory examinations
- Total membership grew by 1%, to 283,085, as we welcomed 23,048 new members
- Added 21 new sponsors (Select Employer Groups) representing 350,000 employees
- Continued to enhance Alliant's digital capabilities, including implementing a device registration process to speed member login to Alliant Online Banking, enhancing personal information screens and introducing email verification
- Made substantial progress in our multi-year effort to modernize Alliant's legacy technology infrastructure
- Introduced member reviews on the public website
- Launched a blog with social sharing capabilities that has attracted more than 88,000 page views since its launch in April
- Implemented the Net Promoter Score measurement and feedback system to give us the ability to gather instant member feedback and quickly respond
- Updated our phone system so it now includes voice recognition, allowing us to improve the efficiency and effectiveness of our 24/7 phone service
- Began implementing a Customer Relationship Management (CRM) system and processes
- Named to the Honor Roll of the Center for Companies That Care for the third consecutive year in recognition of Alliant's workplace practices and community involvement

Looking ahead to 2015 and beyond

As we enter our 80th year, delivering on the Alliant Mission is our guiding light. We are committed to earning our members' trust and business by listening to their financial goals and challenges, and providing exceptional financial value and personal service. Looking ahead, our future is bright. By investing in digital technology and system infrastructure, and pushing for innovations in our products and member service, we will sustain the Alliant Mission into 2015 and beyond.

Alliant Mission

As a member-owned cooperative, Alliant provides members...

- Consistently superior financial value through high returns on deposits and low rates on loans and
- Friendly, efficient, personalized service

Recognized for superior financial performance

Great Rate Award Winner[1]
2009 - 2014

5-Star Superior Rating[2]
74 consecutive quarters

1 Datatrac Great Rate Awards certify that the rate offered by a financial institution's product has consistently outperformed the market average of all institutions monitored by Datatrac during an annual or quarterly period. For more information, please visit www.greatrateaward.com. **2** Bauer Financial, Inc., the national bank and credit union rating firm.

Contributing to our communities

Civic Affairs

Alliant employees taught financial literacy to over 500 junior high students. Employees also organized numerous fundraising events and supported programs that assisted a variety of worthy organizations. Their generosity and participation contributed greatly to the success of these initiatives.

Foundation

In 2014, the Alliant Credit Union Foundation donated over $200,000 to various charities and educational organizations. The Foundation's purpose is to help people attain economic empowerment and self-sufficiency.

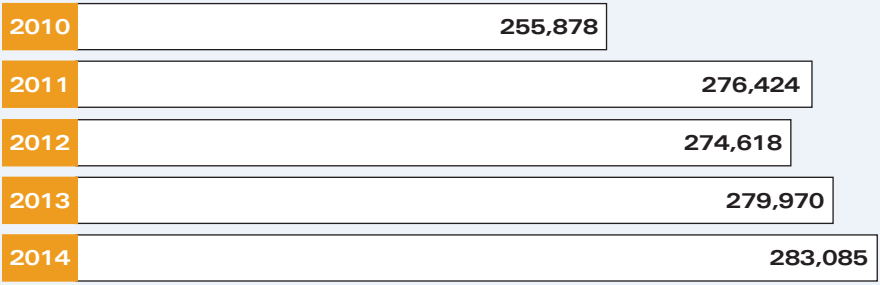
Recognized for corporate and community responsibility

Companies That Care[3]
Honor Roll 2014

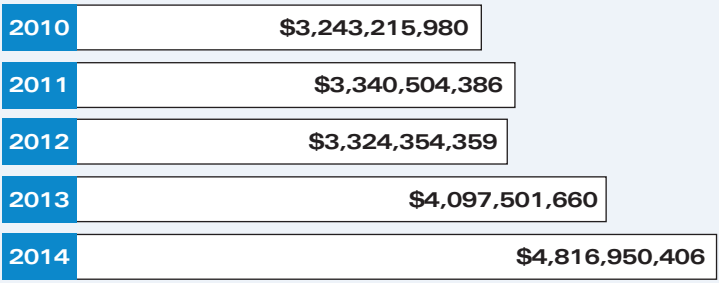
3 Center for Companies That Care is a national, not-for-profit organization dedicated to ensuring social sustainability by engaging employers in improving the lives of employees, families and communities. Center for Companies That Care's Honor Roll is a national list recognizing employers for outstanding workplace practices and active community involvement.

Performance Trends

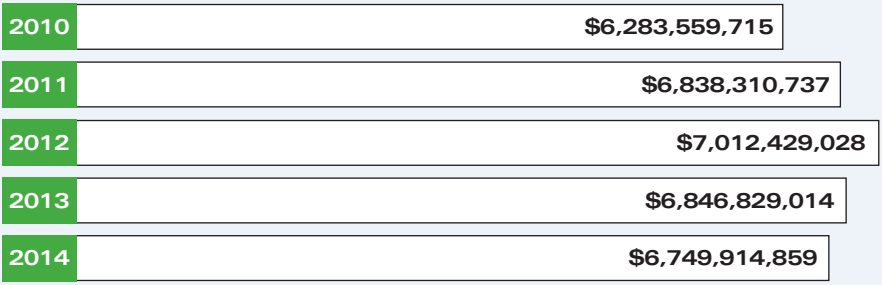
Total primary members



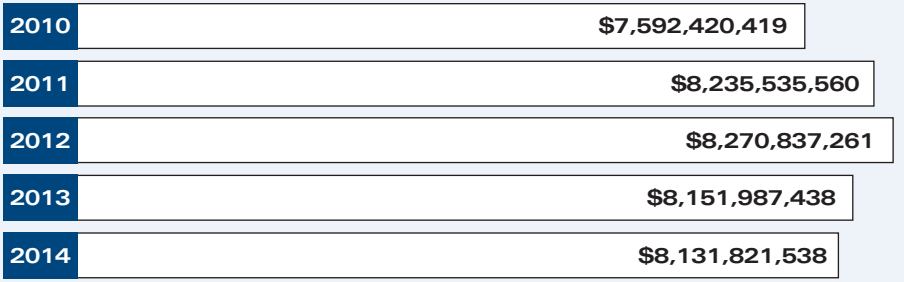
Total gross loans



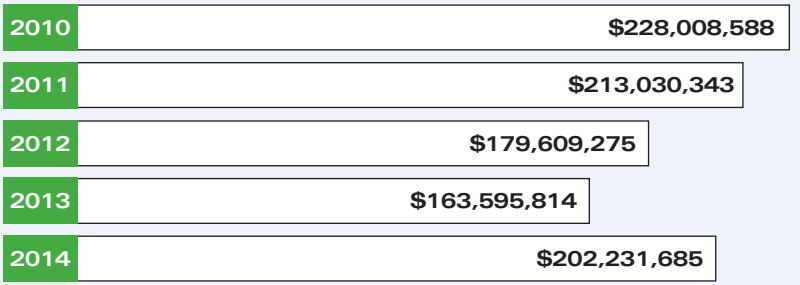
Total deposits



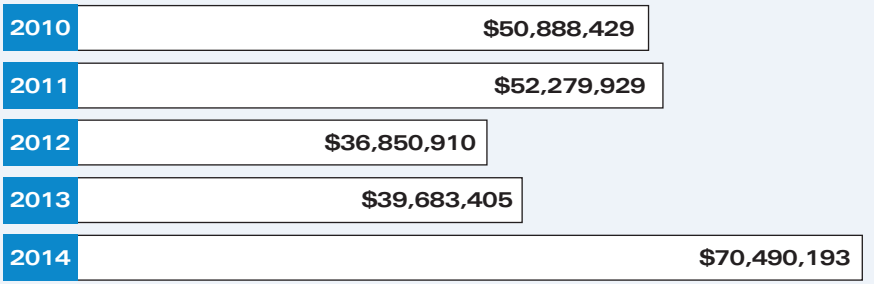
Total assets



Total interest income



Net income



Financial Statements

for the year-ended December 31, 2014

STATEMENT OF FINANCIAL CONDITION (Unaudited)

($ millions)		2014		2013
ASSETS				
Cash and Cash Equivalents	$	305.0	$	304.6
Certificates of Deposit with other Financial Institutions		0.0		0.1
Securities Available-For-Sale		2,841.8		3,632.8
Loans to Members, Net		4,812.5		4,091.5
National Credit Union Share Insurance Fund Deposit		63.0		64.6
Other Assets		109.4		58.4
Total Assets	**$**	**8,131.8**	**$**	**8,152.0**
LIABILITIES AND MEMBERS' EQUITY				
Members' Shares				
Common Shares	$	4,995.7	$	5,016.2
Certificate Shares		812.1		893.1
IRA Shares		546.1		575.7
Checking Shares		319.3		295.9
HSA Shares		76.7		65.9
Total Members' Shares	**$**	**6,749.9**	**$**	**6,846.8**
Borrowings		434.8		429.4
Other Liabilities		24.9		22.8
Total Liabilities	**$**	**459.7**	**$**	**452.2**
Members' Equity				
Regular Reserve		121.0		121.0
Undivided Earnings		799.1		728.6
Accumulated Other Comprehensive Income		2.1		3.3
Total Members' Equity	**$**	**922.2**	**$**	**853.0**
Total Liabilities and Members' Equity	**$**	**8,131.8**	**$**	**8,152.0**

for the year-ended December 31, 2014

STATEMENT OF INCOME (Unaudited)

($ thousands)		2014		2013
INTEREST INCOME				
Loans to Members	$	167,646.1	$	136,062.4
Securities and Certificates of Deposit with other Financial Institutions		34,577.7		27,525.0
Other		7.9		8.4
Total Interest Income	**$**	**202,231.7**	**$**	**163,595.8**
INTEREST EXPENSE				
Members' Shares	$	54,139.8	$	57,065.8
Other		716.0		780.9
Total Interest Expense	**$**	**54,855.8**	**$**	**57,846.7**
Net Interest Income	**$**	**147,375.9**	**$**	**105,749.2**
Provision for Loan Losses	$	11,096.3	$	9,345.7
Net Interest Income After Provision for Loan Losses	**$**	**136,279.6**	**$**	**96,403.5**
NON-INTEREST INCOME				
Net Gain on Disposition of Investments	$	13.3	$	5,711.2
Gain on Loan Sale		2,926.6		2,093.2
Loss on Foreclosed Assets		(373.3)		(696.6)
Service Fees		3,946.2		3,924.5
Interchange Income		6,537.6		6,109.2
Other Income		6,428.7		7,415.4
Total Non-Interest Income[3]	**$**	**19,479.1**	**$**	**24,556.9**

(continued on page 12)

Financial Statements, continued

for the year-ended December 31, 2014

STATEMENT OF INCOME (Unaudited)

($ thousands)		2014		2013
NON-INTEREST EXPENSE				
Salaries and Employee Benefits	$	42,735.5	$	37,008.1
Service Charges		13,477.3		11,004.8
Office Operations		8,409.2		7,462.8
Depreciation		3,988.4		4,026.6
Data Processing		4,198.7		3,936.9
Professional Fees		4,235.8		4,331.5
Other		8,223.6		8,339.0
NCUA Premium Assessment		–		5,167.2
Total Non-Interest Expense	**$**	**85,268.5**	**$**	**81,277.0**
NET INCOME	**$**	**70,490.2**	**$**	**39,683.4**

Reclassification – Certain amounts appearing in the prior year's financial statements have been reclassified to conform to the current year's financial statements.

BOARD OF DIRECTORS

Ed Rogowski, *Chairman*
John Gebo, *Vice Chairman*
David W. Mooney, *President/Treasurer*
Irwin I. Gzesh, Secretary
Julian Chu
Ted Davidson
David Leib
Alex Marren
Anne Pease
Scott Wilson

EXECUTIVE MANAGEMENT TEAM

David W. Mooney, *President & CEO*
Harry Zhu, *SVP, Finance*
Jason Osterhage, *SVP, Lending*
George Rudolph, *SVP, Operations & Technology*
Phil Salis, *SVP, Member Engagement*
Lee Schafer, *SVP, Corporate Affairs*
Timothy J. Wartman, *SVP, Investments*

ALLIANT credit union

PO Box 66945, 11545 W. Touhy Avenue
Chicago, IL 60666-0945
800-328-1935
www.alliantcreditunion.org

EQUAL HOUSING OPPORTUNITY

Federally insured by NCUA

©2015 Alliant Credit Union. All Rights Reserved.

J1124-R02/15