alloya®

Corporate Federal Credit Union

Quarterly Financial and Transparency Report

3rd Quarter 2016

SUMMARY

Alloya's year-to-date net income through September 30, 2016 was $7.6 million compared to $3.9 million for the same period in 2015. Earnings were higher primarily due to higher net interest income and higher fee income, which are discussed below.

Total assets were $3.6 billion as of September 30, 2016, compared to $2.8 billion in the prior year. Members' equity totaled $299 million. Alloya's leverage (regulatory capital) ratio was 9.2% and its Tier 1 risk-based capital ratio was 28.6% as of September 30, 2016. These ratios are in excess of current regulatory requirements. The calculation of regulatory capital ratios changes in October 2016 and is discussed below under Financial Results.

Alloya continues to return significant value to its members through its efficient operating lines of credit and single point access to services and settlement via Premier View. Additional benefits from aggregated pricing, Alloya's ongoing commitment to member education and access to Alloya's wholly-owned subsidiary, Balance Sheet Solutions, add even greater value to membership at the corporate. For additional details regarding Alloya's return of value to members, read the current Report to the Membership, available here, or view our 5-year anniversary video available here.

This document summarizes key aspects of Alloya's operations that are presented in the following sections.

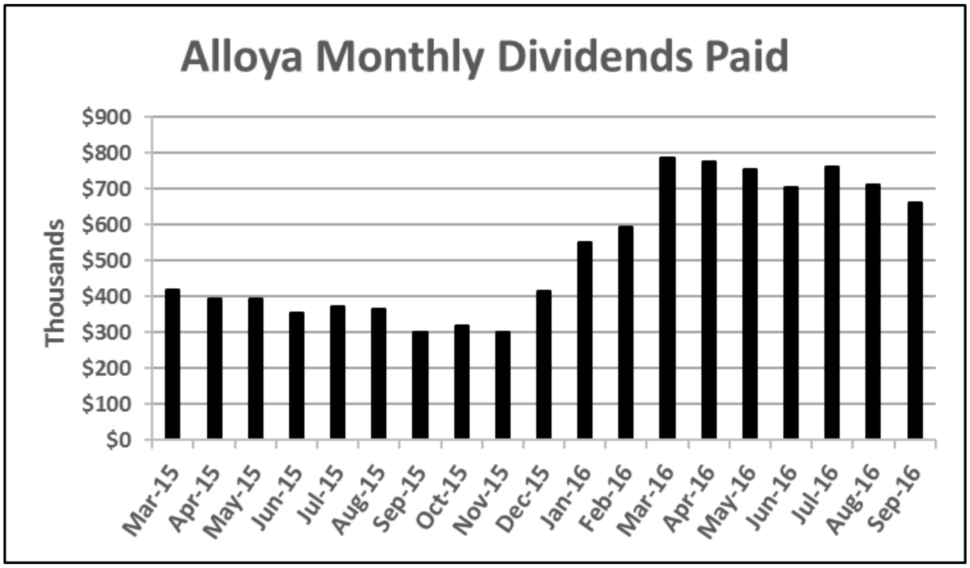
1. Operations
2. Credit Quality
3. Liquidity
4. Asset/Liability Management
5. Financial Results
6. Other Items

OPERATIONS

Alloya is a credit union and a good example of credit union collaboration – over 1,600 credit union entities are connected, share resources and cooperate through their affiliation with Alloya. Our team of 180 professionals view themselves as a resource (or just another department) of the credit unions we serve. We work hard every day to serve credit unions, add value and retain professionals that are engaged and proud to work at Alloya.

As an example of value creation through collaboration, Alloya members have received an estimated 35% average annual return on their invested capital since Alloya's inception, or nearly 150% of their combined capital investment in just five years. This value is derived from annual fee savings in obtaining the Advised Line of Credit from Alloya rather than from commercial banks, efficiency gains via simplified operations by using Premier View, dividends paid on the invested capital and increased retained earnings at Alloya. Low fees, outstanding member service, Balance Sheet Solutions, cooperative investments, credit union education (such as our second annual Credit Union Executive Leadership Symposium held in Chicago in September), and support of leagues and associations all add significantly to the overall value equation. For more information concerning the value received through the *Power of Cooperation*, please see the 2016 Report to Membership, available at Alloya's website or by clicking here.

On December 16, 2015, the Federal Reserve Bank (FRB) raised overnight interest rates for the first time in over seven years. Alloya immediately began paying higher dividends to members on the very first day of the rate increase, something that commercial banks are unlikely to have done for their depositors. Alloya has passed on most of the rate benefit from the FRB increase, paying $6.3 million of regular dividends through September 2016, compared to $3.2 million through September 2015 (includes dividends paid by SunCorp for January and February, 2015). As shown in the chart below, while Alloya's balance sheet has remained relatively steady within seasonal trends, dividends year over year have increased by almost 95%. At the same time, Alloya's year-to-date net income is above plan, and as noted above is higher than for the same period in 2015. This is a clear example of the *Power of Cooperation*.



Alloya continues to execute its multi-year strategic plan to develop people, provide exceptional service, maintain safety and soundness, and achieve targeted capital accumulation goals. Our vision is to support credit union success, and create added efficiencies and value. While the two recent mergers are legally complete and significant critical system conversions have been implemented, Alloya is pursuing several initiatives to complete a vision of shared capabilities for the entire membership. These include consolidations in our Check systems and enhancements to the way our membership and product operating agreements will be facilitated (mostly electronically via Premier View). As these systems are consolidated and cost structures standardized, Alloya will be able to introduce a fee schedule based on Cooperative Pricing to all members, which will ensure that each member receives the full value of the *Power of Cooperation* for the long-term.

CREDIT QUALITY

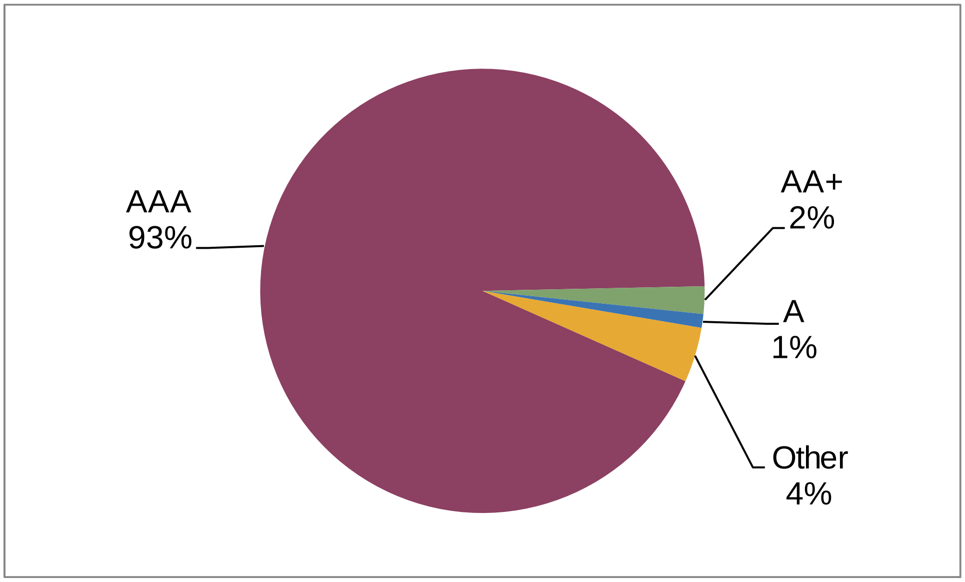
Approximately 84% of Alloya's assets at September 30, 2016 are cash or investments. Member loans (15%) make up most of the remainder. Alloya's cash and investment portfolio (at market value) consisted of the following (dollars in millions).

	Amount	**Percent**
Cash	$1,471	49.0%
Motor vehicle asset-backed securities	440	14.7%
US Agency securities	419	14.0%
Credit card asset-backed securities	293	9.8%
FFELP student loan asset-backed securities[1]	207	6.9%
Equipment asset-backed securities	99	3.3%
Private Label mortgage-backed securities	64	2.1%
Other	8	0.3%
Total	$3,001	100.0%

[1] FFELP stands for Federal Family Education Loan Program. The underlying loans are at least 97% guaranteed by the US Government.

Substantially all of the $1.4 billion in cash is deposited at the Federal Reserve Bank to cover settlement for Alloya and members' activity and earn a return on invested cash. The remaining portion ($49 million) is held at large international or regional correspondent banks to facilitate clearing activities and settlement on behalf of Alloya's members.

By internal policy and regulation, Alloya's investment purchases are restricted to certain sectors. The investment portfolio is concentrated in high-quality asset-backed securities or securities issued or guaranteed by U.S. Agencies. A summary of the securities (*excluding cash*) by credit rating is presented below.



The securities in the "Other" category are Private Label mortgage-backed securities. Most of these securities are backed by loans that were originated in the 2005-2007 timeframe. Alloya owns the securities as a result of the mergers with CenCorp (April 30, 2013) and SunCorp (February 28, 2015). Alloya acquired the securities at the market value at the time of each merger and therefore owns the bonds at a substantial discount to the par value. As of September 30, 2016, the total Private Label mortgage-backed securities portfolio had an unrealized loss of $2.6 million.

Alloya outsources the credit analytics on these bonds to a third party (MountainView). Based on their Base Case projected cash flows, the economic value of holding the bonds until maturity exceeds the current market value by approximately $12.5 million. Therefore, it is expected that much of the current discount to par will accrete to income over time. This would provide significant additional value to members, which is why Alloya is holding these bonds at this time.

Alloya lends funds to credit union and affiliate members on a secured basis only. The loans outstanding include fixed-rate term loans, many of which were originated several years ago at rates that are higher than current market rates. Other loans either mature overnight or have an adjustable rate. All loans are current as of September 30, 2016.

LIQUIDITY

Member overnight deposits at Alloya follow a fairly predictable annual pattern of a peak in early April, with low points in late August to late September. Member overnight deposits have been well in excess of overnight loans at Corporates for decades. Established internal funds management practices at Alloya anticipate member liquidity needs, which can be volatile. Alloya's liquidity position remained strong with significant capacity to lend additional funds.

Alloya maintains a higher amount of liquid investments and/or access to external liquidity sources than other financial institutions to compensate for this volatility. Cash balances alone totaled $1.5 billion at September 30, 2016. External sources of liquidity for Alloya include $1.1 billion in credit lines through various financial institutions. As of September 30, 2016, Alloya was utilizing $125 million of those lines, leaving $965 million of available borrowing capacity. Borrowing for liquidity purposes is typically only for a few days during the low points in the liquidity cycle, or to test the various lines. Excess Balance Accounts (EBAs) at the FRB reduce Alloya's average balance sheet size. EBAs totaled $2.5 billion at September 30, 2016, and provide an additional source of liquidity for Alloya.

ASSET/LIABILITY MANAGEMENT

The maturity/repricing characteristics of Alloya's interest-earning assets (primarily investments) generally correspond closely with its interest-bearing liabilities (primarily member accounts). Alloya performs regular asset/liability modeling (commonly known as "shock analysis"). The shock analysis quantifies the impact that an instantaneous and sustained change of up to 300 basis points in market interest rates (either up or down) would have on Alloya. This analysis calculates the change in the Net Economic Value (NEV) of Alloya's assets minus liabilities assuming changes in market interest rates. For calculation purposes, Contributed Capital at Alloya is a component of equity.

NCUA regulations require Alloya to maintain an NEV ratio (NEV divided by the fair value of assets) in excess of 2.0% in a base and shocked scenarios, as well as limiting the *decline* in NEV in the shocked scenarios to no more than -20.0%. Alloya's NEV ratio exceeded the regulatory NEV Ratio requirement, ranging from 8.5% in the base scenario to 7.8% in the up 300 basis point scenario at September 30, 2016. Alloya's largest decline in NEV was in the up 300 basis point scenario at -9.6% at September 30, 2016, also in compliance with the regulatory requirement.

FINANCIAL RESULTS

Alloya's year-to-date financial results through September 30, 2016 were higher than projected. Consolidated financial statements for September 30, 2016 and 2015 are presented on the following pages. The merger with SunCorp was effective February 28, 2015. Under generally accepted accounting principles, income and expenses are for Alloya only for January and February 2015, and combined operations for March 2015.

Alloya's year-to-date operational results through September 30, 2016 were higher than 2015 and were ahead of projections, primarily due to higher net interest income and fee income. Interest income is higher primarily due to the FRB rate increase in late 2015 and higher balances. Fee income was higher, primarily due to higher SimpliCD and security sales and EBA revenue. This was partially offset by higher dividends on member accounts which increased by about 95% over the same period in 2015.

Operating expenses were slightly higher than projected for the period primarily due to higher commissions on SimpliCD and security sales and higher professional and outside services expenses. However, including SunCorp operating expenses for January and February 2015, total year-to-date operating expenses through September 30, 2016 were about $0.8 million lower than the same period in 2015.

Alloya is a federally-chartered Corporate credit union subject to regulation by the NCUA. Corporate Credit Union regulations require compliance with various capital ratios. The table below shows Alloya's capital ratios compared to regulatory requirements at September 30, 2016.

Capital Ratio	**Alloya**	**Regulatory Requirement**
Leverage (regulatory capital) ratio	9.1%	4.0%
Tier 1 risk based capital ratio	28.5%	4.0%
Total risk based capital ratio	29.3%	8.0%

Beginning October 20, 2016, NCUA Regulation 704 reduces the amount of perpetual contributed capital (PCC) that can be included as capital for the calculation of the leverage ratio and Tier 1 risk based capital ratio (note that actual PCC amounts remain unchanged). This will reduce the Leverage ratio and Tier 1 risk based capital ratio. It will not impact the total risk based capital ratio. For comparison, the table below shows what the September 2016 ratios would have been using the October 20, 2016 calculations.

Capital Ratio	**Alloya**	**Regulatory Requirement**
Leverage (regulatory capital) ratio	6.0%	4.0%
Tier 1 risk based capital ratio	18.0%	4.0%
Total risk based capital ratio	29.3%	8.0%

Alloya will continue to be considered well capitalized under the revised calculations. The calculations are for regulatory purposes only and do not impact the total amount of GAAP equity as shown on the below financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
(DOLLARS IN MILLIONS)

BALANCE SHEETS

	9/30/2016	9/30/2015
Assets		
Cash and cash equivalents (primarily FRB)	$1,471	$832
Investments	1,530	1,435
Loans	518	541
Other assets	47	38
Total assets	$3,566	$2,846
Liabilities		
Members' shares	$2,826	$2,312
Members' certificates	309	235
Borrowings	125	-
Liabilities and uncollected funds	7	7
Total liabilities	3,267	2,554
Members' Equity		
Perpetual contributed capital	223	220
Non-perpetual contributed capital	9	15
Retained earnings and other equity	70	62
Other comprehensive income (loss)	(3)	(5)
Total members' equity	299	292
Total liabilities and members' equity	$3,566	$2,846

STATEMENTS OF OPERATIONS

	Year-To-Date	
	9/30/2016	9/30/2015
Interest income	$25.1	$19.0
Interest expense	6.5	3.0
Net interest income	18.6	16.0
Fee income, net	16.7	15.1
Earnings before operating expenses	35.3	31.1
Compensation and benefits	17.6	18.7
Professional and outside services	4.1	2.5
Office operations	1.9	2.2
Training, travel and communications	2.2	1.9
Office occupancy	1.4	1.1
Other expense	0.5	0.8
Total operating expenses	27.7	27.2
Net income	$7.6	$3.9

ALLOYA CORPORATE FEDERAL CREDIT UNION
STATEMENT OF CAPITAL
(DOLLARS IN MILLIONS)

	Perpetual Contributed Capital	Nonperpetual Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Gain (Loss)
Balances as of January 1, 2016	$221	$14	$63	($8)
Change in member capital accounts	2	(5)	-	-
Net income	-	-	8	-
Other comprehensive gain or loss	-	-	-	5
Dividends on perpetual contributed capital	-	-	(1)	-
Balances as of September 30, 2016	$223	$9	$70	($3)

OTHER ITEMS

Membership

Alloya primarily serves members in a fourteen-state core market consisting of Colorado, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New York, Rhode Island, South Dakota, Utah and Wyoming. Alloya also serves members in half of the remaining states. The table below summarizes Alloya's membership.

Market Area	Members
Core Markets	1,493
Other Markets	122
Total	1,615