alloya®

Corporate Federal Credit Union

2015 Audited Financials

Chair's Comments

Alloya continues to see significant growth and success as it begins its fifth year of operations. Alloya finished 2015 even stronger and better positioned strategically than ever before. I am pleased to report that Alloya met or exceeded all of the 2015 strategic goals established by the board of directors.

Early in 2015, Suncorp members unanimously voted to become part of the Alloya family through merger. This merger provided significant value to former SunCorp members, ensuring they had a continuing source of cooperatively provided services. From Alloya's perspective the merger yielded increased scale, opened new western markets to Alloya and Balance Sheet Solutions, and afforded the opportunity to provide enhanced member service throughout the country. All members benefit from the resulting expansion of offices into all four continental time zones in the United States, and call centers staffed with professionals to provide exemplary service twelve hours each business day.

The cooperative business model is working, and credit unions continue to examine and find value in Alloya. Fifteen credit unions chose to join and capitalize Alloya in 2015, and this strong growth has continued into 2016 as additional credit unions are actively considering membership. New member credit unions shared the reasons they joined were to gain efficient access to liquidity solutions such as the line of credit, the simplicity and security of interaction through Premier View and ineffective service levels from current providers.

Alloya prides itself on its uncompromising attention to serving members. In 2015, Alloya maintained its record-level member satisfaction score of 4.7 out of a possible 5. Further, when members were asked on a ten-point scale the likelihood that they would recommend Alloya to a peer, 81% gave Alloya a rating of either 10 or 9. This is a remarkable achievement, particularly given the level of change experienced in any merger.

Alloya is a cooperative, and as such, all members benefit through the expanded use of the products and services offered by Alloya and Balance Sheet Solutions. Where possible, we ask you to "Think Alloya First" when evaluating products and services for your credit union.

On behalf of Alloya's board of directors, thank you for support and involvement – we welcome your feedback and ideas. To share your thoughts with the board, please visit www.alloyacorp.org/askalloya_bod.

Leanne McGuinness
March 09, 2016

Chief Executive Officer's Comments

During 2015 your Corporate continued to execute on its multi-year strategic plan to develop people, provide exceptional service, maintain safety and soundness, and achieve targeted capital accumulation goals. Our vision is focused on supporting credit union success, and our professionals view themselves as a resource for the membership. I can't be more proud of the team, and I am happy to report that Alloya made significant progress in each of these key strategic areas, adding significant value to members in doing so.

Throughout 2015, credit unions continued to experience high loan demand and Alloya provided liquidity solutions by funding over 12,650 operating loans in excess of $15.1 billion. We also enhanced the term lending program and better positioned Alloya to offer longer dated fixed rate loans to its membership. But liquidity options do not stop with the traditional lending program. During 2015, we helped credit unions raise an additional $664 million through a brokered CD issuance program and also provided loan participation support by matching buyers and sellers and performing loan level analytics to support the decision making process.

Alloya also provides credit unions with efficient cash management solutions and I am especially pleased to report that we raised rates across the board when the Federal Reserve increased the Fed Funds rate in December. Not many correspondent banks, if any, paid higher dividends on the same day that they earned additional revenue. This highlights the power of the cooperative business model – the day we earned more revenue is the day we shared that revenue with the membership.

From an operations perspective, the merger with SunCorp was effective February 28, 2015. Just three short months later, all SunCorp members were converted to Premier View and started to benefit from its convenient and secure access to account information and transaction processing. This conversion was accomplished in record time and with a very positive response from members. With two recent mergers, we have more work to do in 2016 and 2017 as we pursue a vision of Shared Capabilities and Cooperative Pricing for the entire membership. In a few areas, like Check and ACH services, we maintain separate systems that have different operational processes and cost structures. We will be working to consolidate these systems to a single common platform to better ensure that every member of Alloya shares a similar service experience. As conversions occur, we will work hard to minimize member inconvenience and effort.

Financial highlights for 2015 include net income of $5.4 million, regulatory retained earnings of $69.2 million, total assets of $3.4 billion, Excess Balance Account balances of $2.6 billion and a retained earnings ratio of 2.15% versus a regulatory requirement of 0.45%. The results are significantly ahead of the financial plan presented in the Private Placement Memorandum during Alloya's formation.

Alloya is a great example of credit unions working together to increase capabilities and reduce costs. Through Alloya, credit unions can access professionals, negotiate for aggregated services and pool resources for research that they otherwise could not afford. The opportunities to build on this cooperative model are only limited by our imagination.

On behalf of the Alloya team, thank you for playing the most important role in Alloya's success story – your continued support makes all the difference.

Todd M. Adams
March 09, 2016

OCM&Co
CPAs AND ADVISORS
A DoerenMayhew Firm

INDEPENDENT AUDITOR'S REPORT

March 3, 2016

To the Supervisory Committee of
Alloya Corporate Federal Credit Union

We have audited the accompanying consolidated financial statements of Alloya Corporate Federal Credit Union and its subsidiary, which comprise the consolidated statement of financial condition as of December 31, 2015, and the related consolidated statements of income, comprehensive operations, members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alloya Corporate Federal Credit Union as of December 31, 2015, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements as of December 31, 2014, were audited by Orth, Chakler, Murnane and Company, whose report dated February 20, 2015, expressed an unmodified opinion on those statements.

Other Matters

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, Alloya Corporate Federal Credit Union's assertion concerning the effectiveness of the Credit Union's internal control and procedures over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 3, 2016, expressed an unqualified opinion.

OCM & Co., CPAs and Advisors

OCM & Co., CPAs and Advisors
A DoerenMayhew Firm
Miami, FL

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31, 2015	2014
Cash and cash equivalents	$1,456,806,690	$619,554,935
Investments:		
Available-for-sale	1,395,001,912	1,067,040,956
Other investments	846,000	496,000
Loans to members	489,281,669	584,289,686
Accrued interest receivable:		
Investments	1,437,730	872,256
Loans	492,718	485,471
Prepaid and other assets	22,982,940	5,349,803
Property and equipment	6,160,865	1,513,076
Goodwill and other intangible assets	4,768,040	—
National Credit Union Share Insurance Fund (NCUSIF)	3,466,980	3,202,067
Total assets	$3,381,245,544	$2,282,804,250

LIABILITIES AND MEMBERS' EQUITY

	As of December 31, 2015	2014
LIABILITIES:		
Members' shares and certificates	$3,057,306,838	$2,045,629,759
Deposits in collection	41,489,809	4,965,896
Accounts payable and accrued liabilities	5,951,836	6,009,401
Accrued interest payable	124,852	69,326
Total liabilities	3,104,873,335	2,056,674,382
MEMBERS' EQUITY:		
Perpetual contributed capital	220,795,578	167,084,788
Retained earnings and other equity	63,332,956	58,735,073
Accumulated other comprehensive (loss)/income	(7,756,325)	310,007
Total members' equity	276,372,209	226,129,868
Total liabilities and members' equity	$3,381,245,544	$2,282,804,250

The accompanying notes are an integral
part of these consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF INCOME

	For the years ended December 31, 2015	2014
INTEREST INCOME:		
Loans to members	$10,531,997	$10,239,265
Investments	15,292,457	9,909,194
Total interest income	25,824,454	20,148,459
INTEREST EXPENSE		
Members' share and certificates	4,104,902	2,863,145
Net interest income	21,719,552	17,285,314
NON-INTEREST INCOME:		
Fee income, net of correspondent banking expenses	11,228,875	10,105,917
Balance Sheet Solutions fee income	6,829,106	6,624,153
Agent income from Excess Balance Account Program	1,312,150	1,279,108
Other income	825,194	803,192
Gain on sale of property and equipment	15,873	25,103
Gain on financial instruments	12,282	32,812
Total non-interest income	20,223,480	18,870,285
NON-INTEREST EXPENSE:		
Compensation and employee benefits	25,135,880	19,334,551
Professional and outside services	3,239,719	2,489,977
Office operations	3,041,954	1,960,064
Training, travel and communications	2,663,867	2,182,273
Office occupancy	1,495,980	1,461,893
Miscellaneous	987,032	716,805
Total non-interest expense	36,564,432	28,145,563
Net income	$5,378,600	$8,010,036

The accompanying notes are an integral
part of these consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS

	For the years ended December 31, 2015	2014
NET INCOME	$5,378,600	$8,010,036
OTHER COMPREHENSIVE (LOSS)/INCOME:		
Net unrealized holding(losses)/gains on investments classified as available-for-sale	(8,103,910)	742,146
Reclassification adjustment for losses/(gains) included in net income	37,578	(32,812)
Other comprehensive (loss)/income	(8,066,332)	709,334
Comprehensive (loss)/income	($2,687,732)	$8,719,370

The accompanying notes are an integral
part of these consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

For the years ended December 31, 2015 and 2014

	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income /(Loss)	Total
Balance, December 31, 2013	$162,008,852	$51,883,879	($399,327)	$213,493,404
Net income	—	8,010,036	—	8,010,036
Perpetual contributed capital acquired from new members	5,075,936	—	—	5,075,936
Dividends on perpetual contributed capital	—	(1,158,842)	—	(1,158,842)
Other comprehensive income	—	—	709,334	709,334
Balance, December 31, 2014	167,084,788	58,735,073	310,007	226,129,868
Net income	—	5,378,600	—	5,378,600
Perpetual contributed capital acquired in merger	52,253,900	—	—	52,253,900
Perpetual contributed capital acquired from new members	1,456,890	—	—	1,456,890
Equity acquired through merger	—	697,445	—	697,445
Dividends on perpetual contributed capital	—	(1,478,162)	—	(1,478,162)
Other comprehensive loss	—	—	(8,066,332)	(8,066,332)
Balance, December 31, 2015	$220,795,578	$63,332,956	($7,756,325)	$276,372,209

The accompanying notes are an integral part of these consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$5,378,600	$8,010,036
Adjustments:		
Dividends on perpetual contributed capital	(1,478,162)	(1,158,842)
Depreciation and amortization	1,430,522	511,218
Gain on sale of property and equipment	(15,873)	(25,103)
Gain on financial instruments	(12,282)	(32,812)
Amortization/accretion of investment premiums and discounts	(801,948)	(806,568)
Amortization of premiums on loans	479,493	625,487
Amortization of premiums on members' certificates	(214,614)	(260,039)
Amortization of core deposit intangible	326,942	120,000
Changes in operating assets and liabilities:		
Prepaid and other assets	(229,925)	(757,048)
Accrued interest receivable	(367,407)	(353,924)
Accrued interest payable	17,431	(38,310)
Deposits in collection	36,523,913	1,942,204
Accounts payable and accrued liabilities	(1,589,430)	(166,518)
Net cash provided by operating activities	39,447,260	7,609,781
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales and repayments of available-for-sale investments	678,364,836	597,774,299
Purchase of available-for-sale investments	(652,216,969)	(537,830,895)
Net change in other investments	(350,000)	1,736,000
Net change in loans to members	95,399,874	(139,145,908)
Expenditures for property and equipment	(1,870,468)	(1,061,195)
Proceeds from the sale of property and equipment	15,873	25,270
Change in NCUSIF deposit	235,773	72,239
Net cash acquired from merger	556,865,978	—
Net cash provided by/(used in) investing activities	676,444,897	(78,430,190)

The accompanying notes are an integral
part of these consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash Flows: (continued)

	For the years ended December 31,	
	2015	**2014**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members’ shares and certificates	119,902,708	(33,795,978)
Perpetual contributed capital raised, net	1,456,890	5,075,936
Redemption of MCSD accounts	—	(6,379,635)
Net cash provided by/(used in) financing activities	121,359,598	(35,099,677)
Net change in cash and cash equivalents	837,251,755	(105,920,086)
Cash and cash equivalents at beginning of year	619,554,935	725,475,021
Cash and cash equivalents at end of year	$1,456,806,690	$619,554,935
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$4,087,471	$2,901,455
SCHEDULE OF NON-CASH TRANSACTIONS:		
Other comprehensive (loss)/income	($8,066,332)	$709,334

The fair values of non-cash assets acquired and liabilities assumed in the business combination with Systems United Corporate Federal Credit Union (SunCorp) during the year ended December 31, 2015, were approximately $389,644,000 and $893,559,000, respectively.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

Alloya Corporate Federal Credit Union (the Credit Union) was chartered in October 2011 and is a nonprofit financial cooperative organized to serve as a central money facility for investments and correspondent banking activity for its member credit unions through the financial system. The Credit Union provides a wide range of investment, liquidity, and correspondent banking services for its member credit unions and affiliated organizations principally located in Illinois, New York, Michigan and Colorado.

Balance Sheet Solutions, LLC (BSS) is a wholly-owned subsidiary of the Credit Union. BSS is registered as an investment advisor with the Securities and Exchange Commission (SEC). BSS offers services through CU Investment Solutions, LLC. CU Investment Solutions, LLC, is registered with the Securities and Exchange Commission as a broker-dealer under the Securities Exchange Act of 1934. BSS offers securities transactions and nondiscretionary investment advisory services to its customers, principally credit unions and credit union service organizations.

MERGER WITH SYSTEM UNITED CORPORATE FEDERAL CREDIT UNION

Effective February 28, 2015, the Credit Union acquired certain assets and liabilities of System United Corporate Federal Credit Union (SunCorp) as the legal entity. The merger was treated as a purchase in accordance with the Business Combinations section of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, all significant assets and liabilities of SunCorp were recorded at their estimated fair value.

CONSOLIDATED FINANCIAL STATEMENTS/USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP/USA) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the dates of the consolidated financial statements and the reported amounts of revenues and expenses for the periods then ended. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the determination of the fair value of financial instruments. The significant accounting principles and policies used in the preparation of these consolidated financial statements, together with certain related information, are summarized below.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include accounts of the Credit Union and its wholly owned subsidiary, BSS. All significant intercompany balances and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes amounts due from the Federal Reserve Bank and other depository institutions as well as coin and currency maintained at various courier warehouses. Amounts due from banks may, at times, exceed federally insured limits.

Note 1: (continued)

FEDERAL RESERVE BANK (FRB) - EXCESS BALANCE ACCOUNT (EBA) PROGRAM

The Credit Union, as agent, entered into an EBA agreement with participating member credit unions and the FRB, whereby the FRB opened EBA accounts for the benefit of the participants at the request of the agent. As such, the balances in the EBA accounts are not reflected in the Credit Union's consolidated financial statements. These balances totaled approximately $2,605,271,000 and $2,314,585,000 as of December 31, 2015 and 2014, respectively. Neither the participating member credit unions nor the agent may use the EBA for general payments or other activities. The aggregate balance in the EBA represents a deposit liability of the FRB solely to the participants. The agent is solely responsible for calculating and distributing the interest payable to each participant on the participant's excess balance and for damages owed to participants for any inaccuracy in calculating the participant's excess balance and interest.

INVESTMENTS

Investments are classified into the following categories: available-for-sale and other. Investment securities classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses for available-for-sale investments are reported as a separate component of members' equity as accumulated other comprehensive income/loss. Realized gains and losses on disposition, if any, are computed using the specific identification method. Investments are adjusted for the amortization of premiums and accretion of discounts as an adjustment to interest income on investments over the term of the investment using the interest method.

The Credit Union has elected to classify certain cash equivalents as other investments. This election is available to the Credit Union according to the terms of the Statement of Cash Flows Topic of the FASB ASC.

DERIVATIVE INSTRUMENTS

The Credit Union has agreements with JP Morgan Chase Bank for the purpose of effecting derivative transactions. A derivative contract is a financial instrument whose value depends on, or is derived from, the value of an underlying asset, reference rate or index.

The Credit Union enters into derivative financial instruments in the form of interest rate swap and cap agreements. Derivatives are recorded at fair value in the consolidated balance sheet and the instruments are designated as being used to hedge changes in fair value (See Note 11). The Credit Union uses the fair value option for derivatives. Assets are recorded for realized gains and liabilities are recorded for realized losses. The Credit Union uses derivative instruments primarily to minimize the effects of interest rate volatility on net interest income. Derivatives are closely matched with on-balance sheet risks.

Note 1: (continued)

The Credit Union uses interest rate swap and cap agreements to offset the changes in fair value of certain member loans that occur during periods of interest rate volatility. Changes in fair value of both derivatives and matched member loans are recorded in earnings and are included in gain on financial instruments on the consolidated statements of income. If changes in the fair value of derivatives do not completely offset changes in the fair value of matched member loans, the difference represents ineffectiveness and such ineffectiveness is recorded in earnings. Upon termination, realized gains or losses on derivatives designated in fair value hedging relationships are recorded in earnings.

The accrual of interest income or expense on derivative instruments is reported as a component of interest income or expense.

LOANS TO MEMBERS

Loans to members are stated at the amount of unpaid principal. Interest on loans is calculated using the simple-interest method on principal amounts outstanding. The accrual of interest is discontinued when management believes that collection of interest is doubtful. The Credit Union reviews the loan portfolio for impairment on a regular basis. No allowance for loan losses (ALL) has been established as the Credit Union has never experienced a loss on a member credit union loan and none of the loans were delinquent.

ALL METHODOLOGY

The Credit Union's loan portfolio consists only of loans made to member credit unions and credit union service organizations. The Credit Union has divided the portfolio into two classes of loans (settlement loans and fixed-rate term loans) based on the risk characteristics of each type. Each class of loans requires significant judgment to determine the estimation method that fits the credit risk characteristics of its portfolio segment.

The following methodology is used by management to evaluate each class of loans.

COMMERCIAL CREDIT QUALITY INDICATORS

Settlement loans and fixed-rate term loans are evaluated on a loan-by-loan basis. Loans to members and credit union service organizations (CUSOs) are generally secured by a blanket lien against the assets of the member credit union or CUSO. In addition, the Credit Union may also require the member to pledge specific assets and/or certificate accounts before extending loan advances. Loans to members can be offset against the members' share accounts, if necessary.

If management determines that a loan is impaired, an impairment is recognized through an ALL. There were no impaired loans as of December 31, 2015 or 2014. Additionally, none of the loans were past due or modified as of December 31, 2015 and 2014. The Credit Union places loans on non-accrual status when the loan reaches 90 days past due or when the collection of interest or principal becomes uncertain.

Note 1: (continued)

PROPERTY AND EQUIPMENT

Land is carried at cost. Property and equipment are carried at cost less accumulated depreciation. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets. The cost of leasehold improvements is amortized using the straight-line method over the term of the lease, or the estimated life of the asset, whichever is less. The Credit Union reviews property and equipment (long-lived assets) for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. See subsequent events footnote in Note 1.

GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill and intangible assets acquired in a purchase business combination that are determined to have an indefinite life are not amortized, but tested for impairment at least annually, or more frequently if events and circumstances exist that indicate that an impairment test should be performed. The Credit Union has selected December 31 as the date to perform the annual impairment test, and any impairment is recognized in the period identified. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Credit Union's consolidated statements of financial condition. Other intangible assets consist of a core deposit intangible asset arising from an acquisition and is amortized over its estimated useful life, which approximates 12 months.

NCUSIF DEPOSIT

The deposit in the NCUSIF is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union. The deposit would be refunded to the Credit Union if its insurance coverage is terminated, it converts to insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

MEMBERS' SHARES AND CERTIFICATES

Members' shares are subordinated to all other liabilities of the Credit Union other than non-perpetual contributed capital deposits upon liquidation. Interest rates on members' shares and certificates are set by management based on a daily assessment of available earnings and are not guaranteed by the Credit Union.

NON-PERPETUAL CONTRIBUTED CAPITAL (NPC) SHARES

NPC shares require a notification term of five years prior to their withdrawal from the Credit Union. In the event of the Credit Union's liquidation, NPC shares are payable only after satisfaction of all liabilities of the Credit Union, including uninsured share obligations to members and the NCUSIF.

PERPETUAL CONTRIBUTED CAPITAL (PCC)

PCC is a secondary capital instrument that is classified as equity in the consolidated statement of financial condition. PCC is not negotiable or assignable but may be transferred to another eligible member credit union under certain provisions. PCC may not be pledged or used as security for borrowing. PCC dividends are determined based on net earnings and the overall capital needs of the Credit Union. Additionally, PCC dividends are not guaranteed and may be suspended if earnings are negative and/or capital levels fall below regulatory and/or policy minimum levels.

Note 1: (continued)

FEDERAL AND STATE TAX EXEMPTION

The Credit Union is exempt from most federal, state, and local taxes under the provisions of the Internal Revenue Code and state tax laws. The Income Taxes Topic of the FASB ASC clarifies accounting for uncertainty in income taxes reported in the consolidated financial statements. The interpretation provides criteria for assessment of individual tax positions and a process for recognition and measurement of uncertain tax positions. Tax positions are evaluated on whether they meet the “more likely than not” standard for sustainability on examination by tax authorities. Federal credit unions are tax-exempt under Internal Revenue Code sections 501(c)(14)(a) and 501(c)(1)(a)(I). As such, the Credit Union has no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. Additionally, no interest or penalties have been recorded in the accompanying consolidated financial statements related to uncertain tax positions.

RECENT ACCOUNTING PRONOUNCEMENTS

On January 5, 2016, the FASB issued Accounting Standards Update (ASU) 2016-01, Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Changes to the current GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The classification and measurement guidance will be effective for non-public business entities in fiscal years beginning after December 15, 2018, or they may early adopt for periods after December 15, 2017. The Credit Union is currently evaluating the impact of the ASU.

Entities that are not public business entities will no longer be required to disclose the fair value of financial instruments carried at amortized cost. The ASU also eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value. Entities that are not public business entities can early adopt the provision permitting the omission of fair value disclosures for financial instruments at amortized cost. Early adoption of these provisions can be elected for all financial statements of fiscal years and interim periods that have not yet been made available for issuance. Accordingly, the Credit Union has omitted the disclosures related to the fair value of those financial instruments.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 3, 2016, the date the consolidated financial statements were available to be issued.

On January 22, 2016, the Credit Union entered into an agreement to sell its building and contents located in Westminster, Colorado for $3,200,000. The terms of the sale provide for a leaseback of a portion of the building for $1 per month for six months. The sale closed on January 29, 2016 and the Credit Union recognized a net gain of approximately $27,000.

NOTE 2: INVESTMENTS

The amortized cost and estimated fair value of investments are as follows:

Available-for-sale:	As of December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	$1,017,748,235	$710,674	($6,953,274)	$1,011,505,635
Collateralized-mortgage obligations	375,035,827	332,521	(1,947,071)	373,421,277
Agency securities	9,974,175	100,825	—	10,075,000
	$1,402,758,237	$1,144,020	($8,900,345)	$1,395,001,912

Available-for-sale:	As of December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Asset-backed securities	$822,187,213	$1,547,034	($1,135,348)	$822,598,899
Collateralized-mortgage obligations	234,576,811	377,193	(567,387)	234,386,617
Agency securities	9,966,925	88,515	—	10,055,440
	$1,066,730,949	$2,012,742	($1,702,735)	$1,067,040,956

As of December 31, 2015 and 2014, the Credit Union held certain investments classified as asset-backed securities or collateralized-mortgage obligations that were acquired through mergers totaling approximately $112,407,000 and $25,646,000, respectively, that are no longer permissible under NCUA Regulations. The Credit Union has a temporary waiver from the NCUA to hold these securities.

The amortized cost and estimated fair value of investments by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay certain obligations without call or prepayment penalties.

	As of December 31, 2015 *Available-for-sale* Amortized Cost	Fair Value
1 to 5 years	$9,974,175	$10,075,000
Asset-backed securities	1,017,748,235	1,011,505,635
Collateralized-mortgage obligations	375,035,827	373,421,277
	$1,402,758,237	$1,395,001,912

Note 2: (continued)

The following tables represent concentration limits on investments based on parameters established in *NCUA Regulation 704.5.*

By security type:	As of December 31, 2015 Fair value	Capital based limit	Asset based limit
Mortgage-backed securities (including commercial MBS)	$418,575,865	$3,002,259,090	$1,690,622,771
Auto loan/lease ABS	$400,417,824	$1,501,129,545	$845,311,386
FFELP SLMA	$270,779,534	$3,002,259,090	$1,690,622,771
Credit card ABS	$242,178,866	$1,501,129,545	$845,311,386
Commercial MBS	$203,017,823	$900,677,727	$507,186,831
Other ABS	$52,974,824	$1,501,129,545	$845,311,386

By issuer:	As of December 31, 2015 Fair value	Regulatory limit
COMET	$66,403,960	$150,112,955
FORDF	$41,744,348	$75,056,477
FORDO 2015-C	$39,949,600	$75,056,477
BACCT	$36,757,543	$150,112,955
Chase Insurance Trust	$35,435,500	$150,112,955
AMOT	$35,396,041	$75,056,477
SLMA 2005-9	$34,522,600	$75,056,477
DCENT	$28,072,609	$150,112,955
CCIT	$27,327,314	$150,112,955
MBART 2015-1	$24,942,750	$75,056,477
FORDO 2015-B	$23,959,033	$75,056,477
SLCLT 2004-1	$23,719,805	$75,056,477

The following tables show the gross unrealized losses and fair value of investments, aggregated by length of time individual securities have been in a continuous unrealized loss position.

As of December 31, 2015
Available-for-sale

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Asset-backed securities	$808,797,100	($5,443,289)	$133,762,026	($1,509,985)	$942,559,126	($6,953,274)
Collateralized-mortgage obligations	248,186,894	(1,688,650)	35,141,096	(258,421)	283,327,990	(1,947,071)
	$1,056,983,994	($7,131,939)	$168,903,122	($1,768,406)	$1,225,887,116	($8,900,345)

Note 2: (continued)

	As of December 31, 2014 Available-for-sale					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Asset-backed securities	$476,767,849	($531,571)	$77,162,862	($603,777)	$553,930,711	($1,135,348)
Collateralized-mortgage obligations	45,531,781	(83,513)	38,100,691	(483,874)	83,632,472	(567,387)
	$522,299,630	($615,084)	$115,263,553	($1,087,651)	$637,563,183	($1,702,735)

The Credit Union evaluates each asset-backed security and collateralized-mortgage obligation for other-than-temporary impairment by considering the credit rating of each security as well as the tranche and underlying collateral in evaluating each security for other-than-temporary impairment. Management has the intent and ability to hold these securities to recovery of fair value, which may be maturity. There was no other-than-temporary impairment recognized on asset-backed securities or collateralized-mortgage obligations during the years ended December 31, 2015 and 2014.

Other investments:	As of December 31, 2015	2014
Certificates of deposit	$496,000	$496,000
Interest bearing deposit	350,000	—
	$846,000	$496,000

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31, 2015	2014
Commercial:		
Term loans	$406,891,668	$512,073,421
Settlement loans	82,390,001	72,216,265
	$489,281,669	$584,289,686

The Credit Union reviews all lines of credit on an annual basis by reviewing the member credit unions' financial condition and key ratios. A watch list is created of member credit unions that represent a credit risk or a concentration risk to the Credit Union. The following criteria are used to determine whether a loan will be placed on the watch list:

Note 3: (continued)

Credit Quality Indicators:

- Capital ratio below 6%.
- Negative earnings as of the prior year end and most recent quarter end as well as a capital ratio below 9%.
- Negative earnings as of the prior year end and most recent quarter end as well as a delinquency ratio above 4% and a capital ratio below 10%.

Concentration Risk Indicators:

- Line of credit in excess of 30% of the Credit Union's total members' equity.
- Outstanding loan balance in excess of 10% of the Credit Union's total outstanding loan balance.

NOTE 4: PROPERTY AND EQUIPMENT

A summary of the Credit Union's property and equipment is as follows:

	As of December 31,	
	2015	**2014**
Land	$234,700	$—
Building	2,978,054	—
Computer equipment	2,793,765	2,039,324
Software	3,172,147	2,774,629
Furniture and equipment	2,584,777	2,027,475
Leasehold improvements	776,765	230,399
Software development in process	597,836	1,412
	13,138,044	7,073,239
Less accumulated depreciation	(6,977,179)	(5,560,163)
	$6,160,865	$1,513,076

NOTE 5: MEMBERS' SHARES AND CERTIFICATES

Members' share and savings accounts are summarized as follows:

	As of December 31,	
	2015	**2014**
Daily shares	$2,861,669,090	$1,914,226,196
Share certificates	181,600,817	130,940,275
NPC shares	14,036,931	463,288
	$3,057,306,838	$2,045,629,759

Note 5: (continued)

The aggregate balance of members' time deposit accounts in denominations that meet or exceed $250,000 was approximately $170,039,000 and $120,852,000 as of December 31, 2015 and 2014, respectively.

Scheduled maturities of certificates are as follows:

	As of December 31, 2015
Within 1 year	$170,203,400
1 to 2 years	10,137,417
2 to 3 years	1,260,000
	$181,600,817

SHARE INSURANCE
Members' shares are insured by the NCUSIF to a maximum of $250,000 for each member.

NOTE 6: EMPLOYEE BENEFITS

401(K) AND PROFIT SHARING PLAN
The Credit Union sponsors a defined contribution plan (Plan) established under Section 401(k) of the Internal Revenue Code. This Plan allows employees to contribute up to the Internal Revenue Service maximum allowable percentage of their compensation. The Credit Union matches 100% of the first 4% contributed by employees. Matching contributions approximated $653,000 and $479,000 for the years ended December 31, 2015 and 2014, respectively. In addition, the Credit Union may elect to make a discretionary contribution to the Plan annually. This election requires approval by the Board of Directors. No discretionary contributions were made in 2015 or 2014.

NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES

LEASE COMMITMENTS:
The Credit Union leases several office locations. The minimum noncancellable lease obligations approximate the following as of December 31, 2015:

Year ending December 31	Amount
2016	$569,000
2017	733,000
2018	782,000
2019	804,000
2020	831,000
Thereafter	3,477,000
	$7,196,000

Note 7: (continued)

Rental expense under operating leases was approximately $1,019,000 and $997,000 for the years ended December 31, 2015 and 2014, respectively.

MISCELLANEOUS LITIGATION:
The Credit Union is a party to various miscellaneous legal actions normally associated with financial institutions, the aggregate effect of which, in management's opinion, would not be material to the Credit Union's consolidated financial statements.

NOTE 8: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

The Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its member credit unions and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statements of financial condition. The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

Commitments to extend credit are agreements to lend to a member credit union as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon and are extended as advised lines of credit, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2015, the members' unused lines of credit approximated $7,715,962,000. The Credit Union evaluates each member credit union's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the member.

NOTE 9: REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Failure to meet minimum capital requirements would require the Credit Union to submit a plan of action to correct the shortfall. Additionally, NCUA could require an increase in capital to specific levels, reduction of interest, and ceasing or limiting the Credit Union's ability to accept deposits.

New regulations for corporate credit unions that became effective in October 2011 required corporate credit unions to build minimum retained earnings by October 2013, 2016, and 2020 as well as established requirements to meet a leverage ratio (retained earnings and PCC adjusted for various items divided by the 12-month average of daily net assets), Tier 1 Risk-Based ratio (retained earnings and PCC adjusted for various items and unamortized perpetual contributed capital divided by the 12-month moving average of net risk-weighted assets), and a Total Risk-Based Capital ratio (retained earnings and PCC adjusted for various items and unamortized perpetual contributed capital divided by the 12-month moving average of net risk-weighted assets).

Note 9: (continued)

As a result of the mergers with Central Corporate Credit Union (CenCorp) during 2013 and SunCorp during 2015, the Credit Union's regulatory net worth ratio and GAAP/USA net worth ratio will not equal. For regulatory purposes, the Credit Union is required to add the net worth of CenCorp and SunCorp, at the time of mergers, to its actual net worth to calculate the regulatory net worth ratio. Net worth at CenCorp and SunCorp at the time of each of their mergers was $17,235,538 and $7,333,096, respectively.

The Credit Union's capital amounts used in the calculations below are as follows:

	As of December 31, 2015	2014
Retained earnings	$44,635,511	$40,735,073
Retained earnings from merged credit unions	24,568,634	17,235,538
Total regulatory retained earnings	69,204,145	57,970,611
Perpetual contributed capital	220,795,578	167,084,788
Investments in unconsolidated CUSOs	(3,810,745)	(1,485,945)
Tier 1 capital	286,188,978	223,569,454
Non-perpetual capital	14,036,931	463,288
Total capital	$300,225,909	$224,032,742
Daily average net assets	$3,215,163,058	$2,441,391,800
Monthly moving average net risk-weighted assets	$1,090,541,943	$693,334,633

The Credit Union's actual and required ratios were as follows:

		As of December 31,			
Capital ratio	**Capital/Denominator**	**2015**	**2014**	**Minimum level to be classified as adequately capitalized**	**Minimum level to be classified as well capitalized**
RUDE ratio	RE/DANA	2.15%	2.37%	0.45%	N/A
Leverage ratio	T1C/DANA	8.90%	9.16%	4.00%	5.00%
Tier 1 risk based capital ratio	T1C/MMANRA	26.24%	32.25%	4.00%	6.00%
Total risk based capital ratio	TC/MMANRA	27.53%	32.31%	8.00%	10.00%

RE = Regulatory Retained earnings
T1C = Tier 1 capital
TC = Total capital
DANA = Daily average net assets
MMANRA = Moving monthly average net risk-weighed assets

As of December 31, 2015 and 2014, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

NOTE 10: CHANGES IN ACCUMULATED OTHER COMPREHENSIVE (LOSS)/INCOME

The following table presents the changes in accumulated other comprehensive (loss)/income during the years ended December 31, 2015 and 2014:

	Net Unrealized (Losses)/Gains on Available-for-Sale Securities
Balance as of December 31, 2013	($399,327)
Other comprehensive income before reclassification	742,146
Amounts reclassified from other comprehensive income	(32,812)
Net other comprehensive income	709,334
Balance as of December 31, 2014	310,007
Other comprehensive loss before reclassification	(8,103,910)
Amounts reclassified from other comprehensive income	37,578
Net other comprehensive loss	(8,066,332)
Balance as of December 31, 2015	($7,756,325)

Reclassifications out of accumulated other comprehensive income/(loss):
During the years ended December 31, 2015 and 2014, the Credit Union realized a (loss)/gain on the sale of available-for-sale securities approximating ($38,000) and $33,000, respectively. During the same periods, this (loss)/gain was reclassified from the balance of *Accumulated Other Comprehensive Income* to *Gain on Financial Instruments* reported on the *Consolidated Statements of Income*.

NOTE 11: DERIVATIVES

During the year ended December 31, 2015, two interest rate swaps were executed as follows:

- March 2015, interest rate swap, one year pay fixed, receive floating (1 Month LIBOR) with a $3,400,000 notional amount

- September 2015, interest rate swap, ten year pay fixed, receive floating (1 Month LIBOR) with a $10,000,000 notional amount

The Credit Union’s strategy is to hedge the interest rate risk associated with two fixed-rate loans. This strategy effectively swaps the fixed-rate interest income with variable-rate interest income, thereby reducing the Credit Union’s exposure to interest rate fluctuations. The following table presents the interest rate swaps that are reflected in the Credit Union’s consolidated statements of financial condition:

Note 11: (continued)

As of December 31, 2015

Swap Counterparty (Notional Amount)	Pay Fixed Rate	Consolidated Balance Sheet Classification	Fair Value
JP Morgan Chase ($3,400,000)	0.43%	Prepaid and other assets	$428
JP Morgan Chase ($10,000,000)	2.08%	Prepaid and other assets	54,773
			$55,201

In July 2015, one interest rate cap was purchased for a ten-year term with a $10,000,000 notional amount, hedging the interest rate risk associated with a capped variable-rate loan. This strategy effectively reduces the Credit Union's exposure to interest rates that rise above the capped rate on the variable-rate loan. The following table presents the interest rate cap that is reflected in the Credit Union's consolidated statements of financial condition:

As of December 31, 2015

Cap Counterparty (Notional Amount)	Strike Rate	Consolidated Balance Sheet Classification	Fair Value
JP Morgan Chase ($10,000,000)	0.90%	Prepaid and other assets	$13,844

The following table presents gains/(losses) recorded in the consolidated statement of income for the interest rate swaps and caps:

For the year ended December 31, 2015

Derivative Type	Gains/(Losses) on Derivatives	Consolidated Income Statement Classification
Interest rate swaps	$55,201	Gain on financial instruments
Interest rate caps	(9,656)	Gain on financial instruments
	$45,545	

DERIVATIVE COLLATERAL

The Credit Union has interest rate hedges (swaps and caps) with JP Morgan Chase. These hedges required the initial and ongoing position of margin collateral. As of December 31, 2015, the Credit Union has posted cash collateral with JP Morgan Chase in the amount of $350,000 and is included in other investments on the Credit Union's consolidated statements of financial condition.

FAIR VALUE OPTION

The Credit Union has elected to carry at fair value certain loans that are being hedged with interest rate swap and cap derivatives. The Credit Union has elected fair value treatment for these loans in order to align the accounting for these loans with the accounting for the derivatives without having to account for the transactions under hedge accounting.

Note 11: (continued)

The following table presents the amount of losses from changes in fair value for loans measured at fair value pursuant to the fair value option election for the year ended December 31, 2015:

For the year ended December 31, 2015

Asset	Loss	Consolidated Income Statement Classification
Fixed-rate loans	($47,765)	Gain on financial instruments
Variable-rate loans	(2,788)	Gain on financial instruments
	($50,553)	

The following table presents the book value and fair value for loans measured at fair value pursuant to the fair value election option at December 31, 2015:

As of December 31, 2015

Asset	Book Value	Fair Value
Fixed-rate loans	$13,400,000	$13,352,235
Variable-rate loans	10,000,000	9,997,212
	$23,400,000	$23,349,447

NOTE 12: FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC provides a framework for measuring fair value that requires an entity to derive fair value from the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date within its principal market for the asset or liability, or in the absence of a principal market, the most advantageous market for the asset or liability. To increase consistency and comparability in fair value measurements and related disclosures, a three-level hierarchy prioritizes the inputs to valuation techniques used to measure fair value with the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1), inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly (Level 2), and the lowest priority to unobservable inputs (Level 3).

LEVEL 1

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Note 12: (continued)

LEVEL 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are inactive; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

LEVEL 3

Level 3 inputs are unobservable inputs for the asset or liability which reflect the Credit Union's own assumptions about the assumptions that market participants would use in pricing the asset or liability. Assumptions about risk include risk inherent in a particular valuation technique used to measure fair value, typically pricing models and/or discounted cash flow methodologies.

The methodologies and associated inputs used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While the Credit Union believes its valuation methods and associated inputs are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

RECURRING BASIS

AVAILABLE-FOR-SALE SECURITIES

The following is a description of the valuation methodologies used for these securities:

> **Asset-backed securities** - Other than 5 private-label securities acquired in the merger with CenCorp in 2013 and 5 private-label securities acquired in the merger with SunCorp in 2015, these securities are classified as Level 2 in the fair value hierarchy. Asset-backed securities are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral. Due to limited activity in the market for the private-label securities, management uses a Level 3 technique to value these securities by obtaining cash flow projections for each of the private-label securities from a third-party valuation firm discounted at expected market spreads. The cash flow projections consider a number of factors including the expected spreads, prepayment speeds, default rates, delinquency, and loss severity.

> **Collateralized-mortgage obligations** - Other than 10 private-label securities acquired in the merger with SunCorp in 2015, these securities are classified as Level 2 in the fair value hierarchy. Collateralized-mortgage obligations are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral. Due to limited activity in the market for the private-label securities, management uses a Level 3 technique to value these securities by obtaining cash flow projections for each of the private-label securities from a third-party valuation firm discounted at expected market spreads. The cash flow projections consider a number of factors including the expected spreads, prepayment speeds, default rates, delinquency, and loss severity.

Note 12: (continued)

Federal Agency Securities - These securities are classified as a Level 2 in the fair value hierarchy. Federal agency securities are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

The following tables set forth by level, within the fair value hierarchy, the Credit Union's financial instruments at fair value on a recurring basis.

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Asset-backed securities	$—	$966,351,047	$45,154,588	$1,011,505,635
Collateralized-mortgage obligations	—	341,683,432	31,737,845	373,421,277
Agency securities	—	10,075,000	—	10,075,000
	$—	$1,318,109,479	$76,892,433	$1,395,001,912

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Available-for-sale securities:				
Asset-backed securities	$—	$796,952,952	$25,645,947	$822,598,899
Collateralized-mortgage obligations	—	234,386,617	—	234,386,617
Agency securities	—	10,055,440	—	10,055,440
	$—	$1,041,395,009	$25,645,947	$1,067,040,956

The following table represents a reconciliation for all recurring Level 3 assets and liabilities:

	For the years ended December 31,	
	2015	2014
Balance, beginning of year	$25,645,947	$30,080,996
Additions from merger	67,456,314	—
Proceeds from repayments	(13,251,302)	(5,238,122)
Change in unrealized (losses)/gains	(2,958,526)	803,073
Balance, end of year	$76,892,433	$25,645,947

NOTE 13: MERGER

On February 28, 2015, System United Corporate Federal Credit Union (SunCorp) merged into the Credit Union as the legal entity. The following table summarizes the book values of assets received and liabilities assumed from SunCorp at the acquisition date.

	As of February 28, 2015
Assets:	
Cash and cash equivalents	$556,865,978
Investments:	
Available-for-sale	359,815,421
Other investments	555,000
Loans to members	816,482
Accrued interest	205,313
Property and equipment, net	3,872,959
Other assets	17,408,221
NCUSIF deposit	500,686
Total assets	$940,040,060
Liabilities:	
Members shares and certificates	$891,988,985
Accrued interest payable	38,095
Other liabilities	578,235
Total liabilities	892,605,315
Members Equity:	
Perpetual contributed capital	52,253,900
Retained earnings	7,333,096
Accumulated other comprehensive loss	(12,152,251)
Total members equity	47,434,745
Total liabilities and members equity	$940,040,060

The Credit Union engaged third-party valuation consulting firms to perform valuations of the entity, core deposit intangible asset, land and building, and private-label mortgage-backed securities. The government agency-backed securities, other asset-backed securities, loans to members, and members' share certificates were valued internally by using the valuation techniques employed by the Credit Union. Below is a description of the valuation methodologies used for each of the significant components of the consolidated statements of financial condition:

Loans to members – The market value was determined based on the present value of the expected cash flows discounted at current market rates and approximated book value.

Note 13: (continued)

Available-for-sale investment securities – Securities backed by the U.S. Government and asset-backed securities were valued using a Level 2 valuation technique based on quoted market prices on similar assets in the marketplace. Due to limited activity in the market for private-label mortgage-backed securities, management used a Level 3 technique to value these securities by obtaining cash flow projections from a third-party valuation firm for each of the securities discounted at expected market spreads. The cash flow projections consider a number of factors including the expected spreads, prepayment speeds, default rates, delinquency, and loss severity.

Land and building – The value of the land and building was estimated using a Broker Opinion of Value, which was obtained from a third-party, and utilized a market value approach.

Core deposit intangible – The core deposit intangible was determined by a third party and represents the inherent premium derived from present value calculations related to the core deposit accounts compared to the cost of alternative funding sources with similar terms.

Member certificate accounts - The market value was determined based on the present value of the expected cash flows discounted at current market rates and approximated book value.

Entity value – The entity value represents the estimated value of SunCorp and was determined based on a discounted cash flows methodology using expected future net income and an expected rate of return based on market risks.

The merger was a mutual agreement between Suncorp and the Credit Union to better the availability and quality of services for both fields of membership. Therefore, no consideration was paid to SunCorp as part of the merger. A change in control provision in the employment agreement for the CEO of SunCorp required a payment of approximately $954,000 in compensation and employment taxes with the effective date of the merger. This payment was recognized as part of the merger in accordance with the Business Combinations section of the FASB ASC.

The merger resulted in goodwill of approximately $4,700,000. The goodwill is attributed to the expanded membership base, increased member deposit base and the acquisition of staff with specialized corporate credit union knowledge and expertise. Goodwill is not amortized and will be evaluated for impairment annually or whenever events or changes in circumstances indicate that goodwill may be impaired.

Note 13: (continued)

The following table summarizes the adjusted fair values, premiums or discounts on assets received and liabilities assumed from SunCorp at the acquisition date.

		As of February 28, 2015
Fair value of entity:		
Entity valuation	$697,445	
Retained earnings	7,333,096	
Accumulated other comprehensive loss	(12,152,251)	
Book value of entity	(4,819,155)	
Entity value above book equity		5,516,600
Investment securities		1,040,364
Land and building		334,884
Core deposit intangible		392,330
Change in control payment		(953,630)
Assets/liabilities adjusted to fair value		813,948
Goodwill		$4,702,652

★★★★★★★

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INDEPENDENT AUDITOR'S REPORT

March 3, 2016

To the Supervisory Committee, Board of Directors
and Management of Alloya Corporate Federal Credit Union

We have audited management's assertion, included in the accompanying Management Report on Annual Report that Alloya Corporate Federal Credit Union maintained effective internal control over financial reporting, including control over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 Call Report as of December 31, 2015 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alloya Corporate Federal Credit Union's management is responsible for maintaining effective internal control over financial reporting, and for its assertion about the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Annual Report. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our examination were conducted to meet the reporting requirements of Section 704.15(a)(3) of the National Credit Union Administration (NCUA) Regulations, our audit of Alloya Corporate Federal Credit Union's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with NCUA 5310 Call Report instructions. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Credit Union being made

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only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that Alloya Corporate Federal Credit Union maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of financial condition and the related consolidated statements of income, comprehensive income, members' equity, and cash flows of Alloya Corporate Federal Credit Union and our report dated March 3, 2016, expressed an unqualified opinion.

OCM & Co., CPAs and Advisors

OCM & Co., CPAs and Advisors
A DoerenMayhew Firm
Miami, FL

alloya®
Corporate Federal Credit Union

Corporate Headquarters:
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Alloya Corporate Federal Credit Union
Management Report on Annual Report
2015

We, the undersigned, certify that:

1. We have reviewed the annual report (2015 audited financial statements) of Alloya Corporate Federal Credit Union (Alloya);

2. Based on our knowledge, the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of Alloya as of, and for, the periods presented in the report;

3. We, the certifying officers, are responsible for preparing Alloya's annual financial statements, including reports filed in accordance with regulatory reporting (based on the 5310 Corporate Credit Union Call Report Instructions), for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and for complying with the laws and regulations relating to safety and soundness in the following areas: affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends, and regulatory reporting that meets full and fair disclosure and have:

    a. Designed such internal controls over financial reporting, or caused such internal controls to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and regulatory purposes in accordance with the 5310 Corporate Credit Union Call Report Instructions, utilizing the COSO internal control framework;

    b. Evaluated the effectiveness of such internal controls and procedures; and

    c. Concluded that there were no material changes or weaknesses in financial reporting, including reports filed in accordance with regulatory reporting (based on the 5310 Corporate Credit Union Call Report Instructions), and internal controls that materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting in 2015, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2015.

Date: March 3, 2016

Todd M Adams — N. Brandt Peterson

Todd M. Adams, CEO — N. Brandt Peterson, SVP, CFO