alloya®

Corporate Federal Credit Union

2016 Audited Financials

Chair's Comments

Alloya proudly celebrated its 5-year anniversary in October 2016 thanks to you, our owner/members. When Alloya was launched, potential members received a business plan (Private Placement Memorandum) that laid out Alloya's goals and plans. Alloya made promises to our potential members, and thanks to our wonderful credit union supporters, enough capital was raised to launch Alloya. I am pleased to report that Alloya has delivered on the promises, goals and plans that were laid out with actual results that compare favorably to those projected five years ago:

- Retained earnings were projected at $30 million today, while the actual balance exceeds $70 million.
- Total capital was projected at $130 million today, while the actual balance is nearly $300 million.
- Total assets were projected at $2 billion today, while the actual assets are averaging more than $3 billion.

Alloya's success is measured by more than financial results – the primary reason for Alloya's existence is member value. On a daily basis, Alloya has met every single request for liquidity over the past five years, continued to evolve its leading Premier View technology to simplify members' operational lives and maintained high standards of member service. Alloya's vision to support credit union success into the future looks bright.

During the past five years, Alloya also completed two strategic mergers and is now the #1 corporate credit union in terms of membership. The mergers represent a validation of Alloya's business plan, and have contributed greatly to increasing Alloya's value for all members. We thank these corporate credit unions for believing in Alloya, and choosing us as a merger partner. Alloya's objective is to ensure that every credit union has access to the same service offerings and that efficiencies through consolidation are fully realized. Most processes are now fully integrated, including Premier View, and Alloya staff is working diligently on the final step to achieve this objective with check integrations planned for 2017.

Alloya pursues consolidations or conversions when they will improve our member experience. A great example is the check project that is underway for completion in 2017. Alloya set out to consolidate three separate check systems into one platform and partnered with Catalyst Corporate (based in Plano, TX) to provide the next generation of check processing solutions. This represents an ambitious project as Alloya anticipates completing over 2,500 branch capture conversions and consolidating almost 2 billion check images to a new platform during 2017. From a strategic standpoint, this will better ensure that credit union members can write and deposit checks through a credit union controlled solution well into the future.

Alloya is also a great example of the spirit of credit union cooperation. Through Alloya, 1,600 members are connected and share resources. Some credit unions have excess liquidity, while others need to borrow funds and Alloya serves as an efficient intermediary for credit unions to invest or borrow within the credit union movement. Most importantly, credit unions have access to a shared team of professionals that have their best interests in mind and truly understand the credit union advantage of *People Helping People*.

Finally, Alloya is a credit union just like its members and its Board of Directors consists of credit union leaders from throughout the country. It is my pleasure to work with this talented group to continue to evolve Alloya's long-range strategic plan. A key goal of this plan is to achieve a 3% retained earnings ratio by 2021 and a 4% retained earnings ratio in 10 years. By establishing a longer-term view, Alloya can take actions in the short term to return extra value to the membership while maintaining a strong financial position.

On behalf of Alloya's Board of Directors, thank you for support and involvement and we welcome your suggestions. Please share your thoughts by visiting www.alloyacorp.org/askalloya_bod.

Leanne McGuinness
March 31, 2017

Chief Executive Officer's Comments

A little over three years ago, I became CEO of Alloya and worked with the Board of Directors to reset our strategic goals. Previously, and out of necessity, the prior goals were largely focused on financial metrics with no specific mention of people or culture. At Alloya, strategic goals are much more than words on a piece of paper. They guide how resources are allocated and how performance is measured. After careful consideration, Alloya's strategic goals were reset to focus on People/Culture, Member Service and Financial Performance/Compliance. I am pleased to report that Alloya advanced all three goals during 2016.

People

Alloya is a relatively small company with 180 professionals serving 1,600 members. But we try to do a lot with a few and each team member views themselves as a resource serving the membership. During 2016, we completed relocations to new office space in Naperville, IL and Westminster, CO and implemented technologies to connect better internally. More importantly, we continued to develop a culture based on respect, integrity, service and engagement. To measure progress, we used the Gallup Q12, a national employee engagement survey. In just three years, Alloya has advanced to become a top tier employer of choice, ranking in the 90th percentile of similar companies in 2016, our highest ranking to date.

Member Service

We also keep our decision-making process simple and ask one question: What is best for the members we serve? During 2016, we remained focused on improving our systems and processes to make it easier for our members to do business with us. For example, we have implemented a new contract administration system that is now available in Premier View (our secure online, single-point account management tool) and agreements are easy to retrieve and include standard terms for all members. Premier View has become a powerful technology designed to simplify back office operations for the membership and we invest each year to add content and capabilities.

Member service is also about member value and Alloya's cooperative business model is working. As interest rates have been rising, Alloya, unlike many wholesale institutions, has taken the approach of immediately paying higher rates to members. In just the single month of January 2017, Alloya paid over $1 million in cash dividends compared to $250,000 for the month of January 2015. We hope that $750,000 of additional dividends each month ($9 million annually) will help our members fund good jobs, make investments for the future and overall support their continued success. And just as important as dividends, members continue to find great value in the Advised Line-of-Credit and the efficient cash management accounts.

The value of the Advised Line-of-Credit was evident during 2016 as Alloya provided 9,700 loan advances for $7.5 billion. We also helped credit unions efficiently raise over $700 million through the CD issuance program and facilitated $77 million in loan participations. Over 15,500 users accessed Premier View and Alloya responded to over 33,000 member inquiries. The membership has shown their appreciation for these efforts as Alloya earned a 4.7 score on a 5.0 scale during its annual member satisfaction survey – a third year in a row of record high marks.

Financial Performance and Compliance

By developing a team of professionals that are focused on member service we believe financial performance will follow. That has proven true once again. Alloya exceeded its financial plans for 2016 and financial highlights include net income of $9.3 million, retained earnings and other equity of $71.1 million, total assets of $3.4 billion, EBA balances of $2.1 billion, and a leverage ratio of 6.02%. Alloya also maintained compliance with all applicable rules and regulations.

On behalf of the Alloya team, I want to thank you for your continued support. We feel very fortunate to support the credit union system and we believe the future is bright.

Todd M. Adams
March 31, 2017

DoerenMayhew
CPAs AND ADVISORS

12060 S.W. 129th Court, Ste. 201
Miami, Florida 33186-4582
305.232.8272
doeren.com

INDEPENDENT AUDITOR'S REPORT

March 9, 2017

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

We have audited the accompanying consolidated financial statements of Alloya Corporate Federal Credit Union and its subsidiary (the Credit Union), which comprise the consolidated statements of financial condition as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive operations, members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Alloya Corporate Federal Credit Union and its subsidiary as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2016, 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 9, 2017, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Miami, FL

ALLOYA CORPORATE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	As of December 31, 2016	2015
Cash and cash equivalents	$1,290,993,548	$1,456,806,690
Investment securities:		
Available-for-sale	1,664,271,088	1,395,001,912
Loans to members	435,744,398	489,281,669
Accrued interest receivable:		
Investments	2,430,870	1,437,730
Loans	522,091	492,718
Prepaid and other assets	33,096,490	23,828,940
Property and equipment	5,970,283	6,160,865
Goodwill and other intangible assets	4,702,651	4,768,040
National Credit Union Share Insurance Fund (NCUSIF)	3,473,308	3,466,980
Total assets	$3,441,204,727	$3,381,245,544

LIABILITIES AND MEMBERS' EQUITY

	As of December 31, 2016	2015
LIABILITIES:		
Members’ shares and certificates	$3,086,351,238	$3,057,306,838
Deposits in collection	20,143,601	41,489,809
Notes payable	30,500,000	–
Accounts payable and other accrued liabilities	13,516,395	5,951,836
Accrued interest payable	423,195	124,852
Total liabilities	3,150,934,429	3,104,873,335
MEMBERS’ EQUITY:		
Perpetual contributed capital	223,244,500	220,795,578
Retained earnings and other equity	71,098,906	63,332,956
Accumulated other comprehensive loss	(4,073,108)	(7,756,325)
Total members’ equity	290,270,298	276,372,209
Total liabilities and members’ equity	$3,441,204,727	$3,381,245,544

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, 2016	2015
INTEREST INCOME:		
Investments	$23,195,719	$15,292,457
Loans to members	10,871,342	10,531,997
Total interest income	34,067,061	25,824,454
INTEREST EXPENSE:		
Members' shares and certificates	8,561,331	4,104,351
Borrowings	231,469	551
Total interest expense	8,792,800	4,104,902
Net interest income	25,274,261	21,719,552
NON-INTEREST INCOME:		
Fee income, net of correspondent banking expenses	11,007,434	11,228,875
Balance Sheet Solutions fee income	7,784,869	6,829,106
Agent income from Excess Balance Account Program	2,273,569	1,312,150
Other income	982,867	825,194
Gain on sale of property and equipment	6,645	15,873
(Loss)/gain on financial instruments	(110,365)	12,282
Total non-interest income	21,945,019	20,223,480
NON-INTEREST EXPENSE:		
Compensation and benefits	23,881,986	25,135,880
Professional and outside services	5,997,251	3,239,719
Office operations	2,779,133	3,041,954
Training, travel and communications	2,821,742	2,663,867
Office occupancy	1,782,905	1,495,980
Miscellaneous	630,775	987,032
Total non-interest expense	37,893,792	36,564,432
Net income	$9,325,488	$5,378,600

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, 2016	2015
NET INCOME	$9,325,488	$5,378,600
OTHER COMPREHENSIVE INCOME/(LOSS):		
Net unrealized holding gains/(losses) on investments classified as available-for-sale	3,648,423	(8,103,910)
Reclassification adjustments for losses included in net income	34,794	37,578
Other comprehensive income/(loss)	3,683,217	(8,066,332)
Comprehensive income/(loss)	$13,008,705	($2,687,732)

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, 2016 and 2015			
	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income/(Loss)	Total
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 members - net	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
Net income	–	9,325,488	–	9,325,488
Perpetual contributed capital acquired from members - net	2,448,922	–	–	2,448,922
Dividends on perpetual contributed capital	–	(1,559,538)	–	(1,559,538)
Other comprehensive gain	–	–	3,683,217	3,683,217
Balance, December 31, 2016	$223,244,500	$71,098,906	($4,073,108)	$290,270,298

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, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$9,325,488	$5,378,600
Adjustments:		
Dividends on perpetual contributed capital	(1,559,538)	(1,478,162)
Depreciation and amortization	1,431,951	1,430,522
Gain on sale of property and equipment	(6,645)	(15,873)
(Loss)/gain on financial instruments	110,365	(12,282)
Amortization/accretion of investment premiums and discounts	(348,372)	(801,948)
Amortization of premiums on loans	131,695	479,493
Amortization of premiums on members' certificates	(214,614)	(214,614)
Amortization of core deposit intangible	65,389	326,942
Changes in operating assets and liabilities:		
Prepaid and other assets	(8,963,192)	(579,925)
Accrued interest receivable	(1,022,513)	(367,407)
Accrued interest payable	298,343	17,431
Accounts payable and other accrued liabilities	7,564,559	(1,589,430)
Net cash provided by operating activites	6,812,916	2,573,347
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities, sales and repayments of available-for-sale investments	693,407,274	678,364,836
Purchases of available-for-sale investments	(958,679,655)	(652,216,969)
Net change in loans to members	53,025,647	95,399,874
Expenditures for property and equipment	(4,475,007)	(1,870,468)
Proceeds from sale of property and equipment	3,240,283	15,873
Change in NCUSIF deposit	(6,328)	235,773
Net cash acquired from merger	–	556,865,978
Net cash (used in)/provided by investing activities	(213,487,786)	676,794,897

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, 2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in members' shares and certificates	29,259,014	119,902,708
Net change in deposits in collection	(21,346,208)	36,523,913
Net change in notes payable	30,500,000	
Perpetual contributed capital raised	2,453,922	1,456,890
Redemption of MCSD accounts	(5,000)	–
Net cash provided by financing activities	40,861,728	157,883,511
Net change in cash and cash equivalents	(165,813,142)	837,251,755
Cash and cash equivalents, beginning of year	1,456,806,690	619,554,935
Cash and cash equivalents, end of year	$1,290,993,548	$1,456,806,690
SUPPLEMENTAL CASH FLOWS DISCLOSURES:		
Interest paid	$8,709,071	$4,087,471

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.

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

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

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 $2,062,791,000 and $2,605,271,000 as of December 31, 2016 and 2015, 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 as available-for-sale. Investments classified as available-for-sale are measured at fair value as of the consolidated statement of financial condition date. Unrealized gains and losses on available-for-sale investments are reported as a separate component of members' equity. 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 by a method which approximates the interest method.

Declines in the estimated fair value of individual investments below their cost that are other-than-temporary are reflected as realized losses in the consolidated statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Credit Union does not intend to sell these investments, and (iv) it is more likely than not that the Credit Union will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

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 12). 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, 2016 or 2015. Additionally, none of the loans were past due or modified as of December 31, 2016 and 2015. 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.

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. The core deposit intangible was fully amortized at December 31, 2016.

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 statements 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)

BORROWED FUNDS

The Credit Union maintains outstanding borrowings from the Federal Home Loan Bank of Chicago (FHLBC) as of December 31, 2016. The FHLB borrowings are secured by pledges of qualified collateral, as defined in the FHLB Advance, Pledge and Security Agreement.

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

In January 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 December 31, 2019, or they may early adopt January 1, 2018. 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.

In February 2016, the FASB issued ASU 2016-02, Leases. Changes to the current GAAP model will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020, with an option to early adopt. The Credit Union is currently evaluating the impact of the ASU.

Note 1: (continued)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. Changes to the current GAAP model primarily affects the accounting for loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. Current GAAP require an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable that a loss has been incurred. The update replaces the "incurred loss" impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The guidance will be effective for non-public business entities December 31, 2021. Early adoption is permitted for annual periods beginning January 1, 2019. The Credit Union is currently evaluating the impact of the ASU.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 09, 2017, the date the consolidated financial statements were available to be issued. Management has not identified any items requiring recognition or disclosure.

NOTE 2: INVESTMENT SECURITIES

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

	As of December 31, 2016			
Available-for-sale:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Asset-backed securities	$1,210,931,158	$1,588,586	($3,717,106)	$1,208,802,638
Collateralized-mortgage obligations	442,431,480	706,355	(2,781,934)	440,355,901
Agency securities	9,981,558	112,641	–	10,094,199
Corporate notes	5,000,000	18,350	–	5,018,350
	$1,668,344,196	$2,425,932	($6,499,040)	$1,664,271,088

	As of December 31, 2015			
Available-for-sale:	**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

Note 2: (continued)

As of December 31, 2016 and 2015, the Credit Union held certain investments classified as asset-backed securities or collateralized-mortgage obligations that were acquired through mergers totaling approximately $78,758,000 and $112,407,000, 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, 2016 *Available-for-sale*	
	Amortized Cost	**Fair Value**
1 to 5 years	$14,981,558	$15,112,549
Asset-backed securities	1,210,931,158	1,208,802,638
Collateralized-mortgage obligations	442,431,480	440,355,901
	$1,668,344,196	$1,664,271,088

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

	As of December 31, 2016		
By security type:	**Fair Value**	**Capital Based Limit**	**Asset Based Limit**
Mortgage-backed securities (including commercial MBS)	$476,447,217	$3,023,921,080	$1,720,602,364
Auto loan/lease ABS	476,994,494	1,511,960,540	860,301,182
Credit card ABS	399,988,272	1,511,960,540	860,301,182
Commercial MBS	287,804,318	3,023,921,080	1,720,602,364
FFELP student loan ABS	175,508,211	3,023,921,080	1,720,602,364
Other ABS	120,220,345	1,511,960,540	860,301,182
All other investments	5,625,000	302,392,108	172,060,236
Corporate debt obligations	5,018,350	3,023,921,080	1,720,602,364

Note 2: (continued)

	As of December 31, 2016	
By issuer:	**Fair Value**	**Regulatory Limit**
COMET	$103,145,553	$151,196,054
Chase Insurance Trust	101,892,921	151,196,054
AMOT	65,234,385	75,598,027
FORDF	64,222,579	75,598,027
Wells Fargo DFT	58,575,041	75,598,027
CCCIT	52,461,672	151,196,054
MBMOT	50,164,000	75,598,027
DCENT	48,835,192	151,196,054
AMXCA	41,052,390	151,196,054
AACCT	36,579,744	151,196,054
SLMA 2005-9	33,461,829	75,598,027
SLCLT 2004-1	21,550,277	75,598,027

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, 2016
Available-for-sale

	Less than 12 Months		12 Months or Longer		Total	
Available-for-sale:	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized (Losses)**
Asset-backed securities	$558,611,262	($846,427)	$128,323,653	($2,870,679)	$686,934,915	($3,717,106)
Collateralized-mortgage obligations	169,428,794	(1,358,842)	77,145,561	(1,423,092)	246,574,355	(2,781,934)
	$728,040,056	($2,205,269)	$205,469,214	($4,293,771)	$933,509,270	($6,499,040)

As of December 31, 2015
Available-for-sale

	Less than 12 Months		12 Months or Longer		Total	
Available-for-sale:	**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)

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, 2016 and 2015.

NOTE 3: LOANS TO MEMBERS

The composition of loans to members is as follows:

	As of December 31, 2016	2015
Commercial:		
Term loans	$381,678,034	$406,891,668
Settlement loans	54,066,364	82,390,001
Total	$435,744,398	$489,281,669

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:

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,	
	2016	**2015**
Land and improvements	$–	$234,700
Building and improvements	–	2,978,054
Computer equipment	1,826,675	2,793,765
Software	2,952,976	3,172,147
Furniture and equipment	3,291,848	2,584,777
Leasehold improvements	1,903,007	776,765
Software development in process	506,440	597,836
	10,480,946	13,138,044
Less accumulated depreciation	(4,510,663)	(6,977,179)
Total	$5,970,283	$6,160,865

Depreciation and amortization charged to office operations and office occupancy expenses was approximately $1,432,000 and $1,431,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 5: MEMBERS' SHARES AND CERTIFICATES

Members' share and certificates are summarized as follows:

	As of December 31,	
	2016	**2015**
Daily shares	$2,711,548,508	$2,861,669,090
Share certificates	367,119,715	181,600,817
NPC shares	7,683,015	14,036,931
Total	$3,086,351,238	$3,057,306,838

The aggregate balance of members' certificates in denominations that meet or exceed $250,000 was approximately $351,994,000 as of December 31, 2016.

Note 5: (continued)

Scheduled maturities of certificates are as follows:

	As of December 31, 2016
Within one year	$260,802,715
1 to 2 years	45,340,000
2 to 3 years	34,727,000
3 to 4 years	16,250,000
4 to 5 years	10,000,000
Total	$367,119,715

NOTE 6: BORROWED FUNDS

The Credit Union is a member of the FHLBC and has access to a pre-approved secured line of credit with the capacity to borrow up to a certain percentage of the value of its qualified collateral, as defined in the FHLB Advance, Pledge and Security Agreement.

Outstanding borrowed funds from the FHLBC are summarized as follows:

Interest Type	Interest Rate	Final Maturity Date	Payment Description	As of December 31, 2016	2015
Fixed	0.70%	1/3/2017	Balloon	$30,500,000	$-

NOTE 7: EMPLOYEE BENEFIT PLANS

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 $617,000 and $653,000 for the years ended December 31, 2016 and 2015, 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 2016 or 2015.

NOTE 8: COMMITMENTS AND CONTINGENT LIABILITIES

LEASE COMMITMENTS

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of December 31, 2016:

Year ending December 31,	Amount
2017	$1,199,000
2018	1,233,000
2019	1,259,000
2020	1,289,000
2021	1,301,000
Thereafter	3,905,000
	$10,186,000

Rental expense under operating leases was approximately $1,181,000 and $1,008,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9: OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

OFF-BALANCE-SHEET 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, 2016, the members' unused lines of credit approximated $8,040,223,000. 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 10: 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.

Regulations for corporate credit unions that became effective in October 2011 require 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 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 non-perpetual capital divided by the 12-month moving average of net risk-weighted assets). Beginning in October 2016, a portion of PCC is excluded from Tier 1 capital as defined in the NCUA Regulations. The portion of PCC excluded from Tier 1 capital also reduces daily average net assets and monthly moving average net risk-weighted assets for the applicable ratio calculations.

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.

Note 10: (continued)

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

	As of December 31, 2016	As of December 31, 2015
Retained earnings	$52,401,461	$44,635,511
Retained earnings from merged credit unions	24,568,634	24,568,634
Total regulatory retained earnings	76,970,095	69,204,145
Perpetual contributed capital	223,244,500	220,795,578
Investments in unconsolidated CUSOs	(5,505,502)	(3,810,745)
Tier 1 capital before PCC exclusion	294,709,093	286,188,978
PCC exclusion - effective October 2016	(106,020,357)	–
Tier 1 capital	$188,688,736	$286,188,978
Tier 1 capital before PCC exclusion	$294,709,093	$286,188,978
Non-perpetual capital	7,683,015	14,036,931
Total capital	$302,392,108	$300,225,909
Daily average net assets	$3,241,134,124	$3,215,163,058
Monthly moving average net risk-weighted assets	$1,092,477,633	$1,090,541,943

Capital ratio	As of December 31, 2016	As of December 31, 2015	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio (1)	6.02%	8.90%	4.00%	5.00%
Tier 1 risk based capital ratio (2)	19.13%	26.24%	4.00%	6.00%
Total risk based capital ratio (3)	27.68%	27.53%	8.00%	10.00%

Calculations (Capital/Denominator):
(1) = T1C/DANA
(2) = T1C/MMANRA
(3) = TC/MMANRA

T1C = Tier 1 capital DANA = Daily average net assets
TC = Total capital MMANRA = Moving monthly average net risk-weighted assets

As of December 31, 2016 and 2015, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

NOTE 11: CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following table presents the changes in accumulated other comprehensive income/(loss) by component:

	Net Unrealized (Losses)/Gains on Available-for-sale Securities
Balance as of December 31, 2014	$310,007
Other comprehensive loss before reclassification	(8,103,910)
Amounts reclassified from other comprehensive loss	37,578
Net other comprehensive loss	(8,066,332)
Balance as of December 31, 2015	(7,756,325)
Other comprehensive income before reclassification	3,648,423
Amounts reclassified from other comprehensive income	34,794
Net other comprehensive income	3,683,217
Balance as of December 31, 2016	($4,073,108)

RECLASSIFICATIONS OUT OF ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS):
During the years ended December 31, 2016 and 2015, the Credit Union realized a loss on the sale of available-for-sale securities approximating ($35,000) and ($38,000), respectively. During the same periods, this loss was reclassified from the balance of *Accumulated Other Comprehensive Income* to *(Loss)/gain on Financial Instruments* reported on the *Consolidated Statements of Operations*.

NOTE 12: DERIVATIVES

At December 31, 2016, two interest rate swaps were outstanding as follows:

- February 2016, interest rate swap, ten year pay fixed, receive floating (1 Month LIBOR) with a $5,000,000 notional amount

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

Note 12: (continued)

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:

As of December 31, 2016			
Swap counterparty (Notional Amount)	**Pay Fixed Rate**	**Consolidated Balance Sheet Classification**	**Fair Value**
JP Morgan Chase ($5,000,000	1.42%	Prepaid and other assets	$314,242
JP Morgan Chase ($10,000,000)	2.08%	Prepaid and other assets	56,162
			$370,404

At December 31, 2016, there were no interest rate caps outstanding.

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, 2016	
Derivative Type	**Gains/(Losses) on Derivatives**	**Consolidated Income Statement Classification**
Interest rate swaps	$315,203	(Loss)/gain on financial instruments
Interest rate caps	(10,844)	(Loss)/gain on financial instruments
	$304,359	

DERIVATIVE COLLATERAL

The Credit Union has interest rate hedges (swaps) with JP Morgan Chase. These hedges required the initial and ongoing position of margin collateral. At December 31, 2016, the Credit Union has no cash collateral requirement with JP Morgan Chase.

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 12: (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, 2016:

	For the year ended December 31, 2016	
Asset	Loss	Consolidated Income Statement Classification
Fixed-rate loans	($396,930)	(Loss)/gain on financial instruments

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, 2016:

	As of December 31, 2016	
Asset	Book Value	Fair Value
Fixed-rate loans	$15,000,000	$14,552,517

NOTE 13: 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.

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.

Note 13: (continued)

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.

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment.

RECURRING BASIS

Available-For-Sale Securities

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

Asset-backed securities - Other than 4 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 8 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 13: (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 Fair Value As of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Asset-backed securities	$–	$1,172,711,321	$36,091,317	$1,208,802,638
Collateralized-mortgage obligations	–	419,077,459	21,278,442	440,355,901
Agency securities	–	10,094,199	–	10,094,199
Corporate debt	–	5,018,350	–	5,018,350
	$–	$1,606,901,329	$57,369,759	$1,664,271,088

	Assets Fair Value As of December 31, 2015			
	Level 1	Level 2	Level 3	Total
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

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

	For the years ended December 31,	
	2016	2015
Balance, beginning of year	$76,892,433	$25,645,947
Additions from merger	–	67,456,314
Proceeds from sales	(5,012,011)	–
Proceeds from repayments	(15,135,218)	(13,251,302)
Change in unrealized gains/(losses)	624,555	(2,958,526)
Balance, end of year	$57,369,759	$76,892,433

NOTE 14: MERGERS

On February 28, 2015, 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 liabilities	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:

Note 14: (continued)

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.

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 14: (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 equity:		
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 value		5,516,600
Investment securities		1,040,364
Land and building		334,884
Core deposit intangible		392,331
Change in control payment		(953,630)
Asset/liabilities adjusted to fair value		813,949
Goodwill		$4,702,651

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12060 S.W. 129th Court, Ste. 201
Miami, Florida 33186-4582
305.232.8272
doeren.com

INDEPENDENT AUDITOR'S REPORT

March 9, 2017

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

We have audited Alloya Corporate Federal Credit Union's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Annual Report 2016.

Auditor's Responsibility

Our responsibility is to express an opinion on the company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company'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. A company'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 dispositions of the assets of the company; (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 company are being made 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 company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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.

Opinion

In our opinion, Alloya Corporate Federal Credit Union maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

DoerenMayhew

Report on Financial Statements

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 9, 2017, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Miami, FL

alloya®
Corporate Federal Credit Union

Corporate Headquarters:
184 Shuman Boulevard, Suite 400 • Naperville, IL 60563-8406
Phone: (630) 276-2600 • (800) 782-2431 • Fax: (630) 276-2626
www.alloyacorp.org

Alloya Corporate Federal Credit Union
Management Report on Annual Report
2016

We, the undersigned, certify that:

1. We have reviewed the annual report (2016 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 2016, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2016.

Date: March 09, 2017

Todd M Adams

Todd M. Adams, CEO

N. Brandt Peterson

N. Brandt Peterson, SVP, CFO