alloya®

Corporate Federal Credit Union

2017 Audited Financials

Chair's Comments

Alloya proudly celebrated its six-year anniversary in October 2017 thanks to you, our owner/members. I am pleased to report that Alloya continues to fulfill its mission to support credit union success. As just one example, Alloya paid over $20.3 million in cash dividends to its members in 2017, representing an increase of 135% over the $8.6 million paid in 2016. Alloya's 2017 net income of $11.9 million boosted retained earnings and other equity to $81.5 million and advanced our long-range capital accumulation plans.

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 member request for liquidity over the past six years, continued to evolve its leading Premier View technology to simplify members' operational lives, provided many educational opportunities and maintained high standards of member service.

Over the past several years, corporate credit unions have experienced significant consolidation. Alloya's history can be traced back to the combination of 17 separate legal entities. I am pleased to report that 2017 marked a significant milestone for Alloya – all integration activities are complete, and every member enjoys the same service experience and realizes the same level of value from their membership. Alloya is now more efficient and capable than it has ever been.

Alloya is also a great example of the spirit of credit union cooperation. Through Alloya, 1,500 members are connected and share resources. Some credit unions have excess liquidity, while others need to borrow funds. 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*.

Alloya is also 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. 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. For instance, Alloya recently announced that it was doubling its dividend on perpetual capital for 2018.

On behalf of Alloya's Board of Directors, thank you for your continued support and engagement. We welcome your suggestions so please share your thoughts by visiting www.alloyacorp.org/askalloya_bod.

Leanne McGuinness

February 21, 2018

Chief Executive Officer's Comments

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. Alloya's strategic goals continue to focus on People/Culture, Member Service and Financial Performance/Compliance, and I am pleased to report that Alloya advanced all three goals during 2017. A short summary is provided below, and many more details can be found in the current member letter that is posted on our website.

People

Alloya is a relatively small company with 180 professionals serving 1,500+ members. During 2017, we continued to develop a culture based on respect, integrity, service and engagement. These values are important to us and guide how we hire, promote and reward our professionals. To measure progress, we used the Gallup Q12, a national employee engagement survey. With a continued focus on our culture, Alloya has advanced to become a top tier employer of choice, ranking in the 88th percentile for 2017.

Member Service

We also keep our decision-making process simple and ask one question: What is best for the members we serve? During 2017, we remained focused on improving our systems and processes to make it easier for our members to do business with us. Premier View has become a powerful technology tool that is designed to simplify back office operations for the membership. We continue to invest each year to add content and capabilities and held several credit union focus groups to guide future investments.

But member service is much more than technology. Our team of professionals is always ready to answer the phone when you call. 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.

Financial Performance and Compliance

By developing a team of professionals that is focused on member service, we believe financial performance will follow. That has proven true once again. Alloya exceeded its financial plans for 2017 and financial highlights include: net income of $11.9 million, retained earnings and other equity of $81.5 million, total assets of $3.2 billion, EBA balances of $2.0 billion and a leverage ratio of 6.9%. 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 movement and we believe the future is bright.

Todd M. Adams

February 21, 2018

DoerenMayhew
CPAs AND ADVISORS

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Independent Auditor's Report

February 21, 2018

To the Board of Directors and 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 (the Credit Union), which comprise the consolidated statements of financial condition as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, 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. 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.

DoerenMayhew

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

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, 2017 and 2016, 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 assertion concerning the effectiveness of the Credit Union's internal control and procedures over financial reporting as of December 31, 2017, 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 February 21, 2018, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Miami, FL

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2017 AND 2016

Assets	2017	2016
Cash and cash equivalents	$1,157,174,775	$1,290,993,548
Investments securities:		
Available-for-sale	1,404,660,680	1,664,271,088
Loans to members	501,263,685	435,744,398
Accrued interest receivable	3,222,505	2,952,961
Reverse repurchase agreements	100,000,000	—
Investment in life insurance contracts	14,922,745	14,701,737
Prepaid and other assets	20,420,482	17,139,750
Property and equipment	5,432,840	5,970,283
Goodwill and other intangible assets	5,957,654	5,957,654
National Credit Union Share Insurance Fund (NCUSIF)	3,460,209	3,473,308
Total assets	$3,216,515,575	$3,441,204,727
Liabilities and Members' Equity		
Liabilities:		
Members' shares and certificates	$2,863,284,448	$3,086,351,238
Deposits in collection	930,500	20,143,601
Notes payable	30,500,000	30,500,000
Accounts payable and other accrued liabilities	13,172,321	13,516,395
Accrued interest payable	824,035	423,195
Total liabilities	2,908,711,304	3,150,934,429
Commitments and contingent liabilities		
Members' equity:		
Perpetual contributed capital	226,451,102	223,244,500
Retained earnings and other equity	81,490,509	71,098,906
Accumulated other comprehensive loss	(137,340)	(4,073,108)
Total members' equity	307,804,271	290,270,298
Total liabilities and members' equity	$3,216,515,575	$3,441,204,727

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Interest income:		
Investments	$37,671,267	$23,195,719
Loans to members	9,967,239	10,871,342
Total interest income	47,638,506	34,067,061
Interest expense:		
Members' shares and certificates	20,308,792	8,561,331
Borrowings	314,292	231,469
Total interest expense	20,623,084	8,792,800
Net interest income	27,015,422	25,274,261
Non-interest income:		
Fee income, net of correspondent banking expenses	9,429,091	11,007,434
Balance Sheet Solutions fee income	7,148,770	7,784,869
Agent income from Excess Balance Account Program	3,172,508	2,273,569
Information technology services	1,249,050	921,965
Other income	549,888	69,055
Gain/(loss) on sale of available-for-sale investments	158,660	(34,794)
Gain/(loss) on financial instruments	32,176	(77,079)
Total non-interest income	21,740,143	21,945,019
Non-interest expense:		
Compensation and benefits	25,910,122	23,881,986
Professional and outside services	2,861,249	5,997,251
Office operations	2,439,348	2,779,133
Training, travel and communications	2,807,507	2,821,742
Office occupancy	1,859,877	1,782,905
Miscellaneous	906,862	630,775
Total non-interest expenses	36,784,965	37,893,792
Net income	$11,970,600	$9,325,488

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Net income	$11,970,600	$9,325,488
Other comprehensive income:		
Net unrealized holding gains on investments classified as available-for-sale	4,094,428	3,648,423
Reclassification adjustments for (gains)/losses included in net income	(158,660)	34,794
Other comprehensive income	3,935,768	3,683,217
Comprehensive income	$15,906,368	$13,008,705

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2017 AND 2016

	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income/(Loss)	Total
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 income	—	—	3,683,217	3,683,217
Balance, December 31, 2016	223,244,500	71,098,906	(4,073,108)	290,270,298
Net income	—	11,970,600	—	11,970,600
Perpetual contributed capital acquired from members - net	3,206,602	—	—	3,206,602
Dividends on perpetual contributed capital	—	(1,578,997)	—	(1,578,997)
Other comprehensive income	—	—	3,935,768	3,935,768
Balance, December 31, 2017	$226,451,102	$81,490,509	($137,340)	$307,804,271

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Net income	$11,970,600	$9,325,488
Adjustments:		
Depreciation and amortization	1,409,319	1,431,951
(Gain)/loss on sale of available-for-sale investments	(158,660)	34,794
(Gain)/loss on financial instruments	(32,176)	77,079
Change in cash surrender value	(221,008)	—
Amortization/accretion on investment premiums and discounts	1,153,979	(348,372)
Amortization of premiums on loans	108,681	131,695
Amortization of premiums on members' certificates	(33,515)	(214,614)
Amortization of core deposit intangible	—	65,389
Changes in operating assets and liabilities:		
Prepaid and other assets	(3,089,895)	(8,964,700)
Accrued interest receivable	(269,544)	(1,022,513)
Accrued interest payable	400,840	298,343
Accounts payable and other accrued liabilities	(344,074)	7,564,559
Total adjustments	(1,076,053)	(946,389)
Net cash provided from operating activities	10,894,547	8,379,099

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

Cash Flows (Continued)

	2017	2016
Cash flows from investing activities:		
Proceeds from maturities, sales and repayments of available-for-sale investments	1,093,280,327	693,442,068
Purchases of available-for-sale investments	(830,888,131)	(958,721,094)
Net change in loans to members	(65,627,968)	53,025,647
Expenditures for property and equipment	(871,876)	(4,475,007)
Proceeds from sale of property and equipment	—	3,240,283
Purchase of repurchase agreements	(150,000,000)	—
Proceeds from maturity of repurchase agreement	50,000,000	—
Change in NCUSIF deposit	13,099	(6,328)
Net cash provided from/(used in) investing activities	95,905,451	(213,494,431)
Cash flows from financing activities:		
Net change in members' shares and certificates	(223,033,275)	29,259,014
Change in deposits in collection	(19,213,101)	(21,346,208)
Proceeds from borrowings	30,500,000	30,500,000
Payments on borrowings	(30,500,000)	—
Perpetual contributed capital raised	3,206,602	2,453,922
Dividends on perpetual contributed capital	(1,578,997)	(1,559,538)
Redemption of MCSD accounts	—	(5,000)
Net cash (used in)/provided from financing activities	(240,618,771)	39,302,190
Net change in cash and cash equivalents	(133,818,773)	(165,813,142)
Cash and cash equivalents, beginning of year	1,290,993,548	1,456,806,690
Cash and cash equivalents, end of year	$1,157,174,775	$1,290,993,548

Supplemental Cash Flows Disclosures

Interest paid	$20,255,759	$8,709,071

See accompanying notes to the 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.

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 the 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

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, 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 - Significant Accounting Policies (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 $2,018,997,000 and $2,062,791,000 as of December 31, 2017 and 2016, 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.

Available-for-Sale Investments

Asset-backed securities, collateralized-mortgage obligations, agency securities and corporate notes are classified as available-for-sale when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.

Unrealized gains and losses on securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

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.

Note 1 - Significant Accounting Policies (Continued)

Derivative Instruments (Continued)

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 statements of financial condition 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.

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.

Reverse Repurchase Agreements

The Credit Union has entered into reverse repurchase agreements accounted for as secured borrowings at amortized cost. As the buyer-lender, the Credit Union buys the securities with an agreement to resell them to the seller-borrower at a stated price plus interest at a specified date.

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 (allowance) 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.

Note 1 - Significant Accounting Policies (Continued)

Allowance 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 allowance. There were no impaired loans as of December 31, 2017 and 2016. Additionally, none of the loans were past due or modified as of December 31, 2017 and 2016. 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.

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.

Note 1 - Significant Accounting Policies (Continued)

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 National Credit Union Share Insurance Fund (NCUSIF) is in accordance with NCUA regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent of its insured shares. 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. The NCUSIF deposit is required to be periodically reviewed for impairment.

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.

Note 1 - Significant Accounting Policies (Continued)

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.

Borrowed Funds

The Credit Union maintains outstanding borrowings from the Federal Home Loan Bank of Chicago (FHLBC) as of December 31, 2017. The FHLB borrowings are secured by pledges of qualified collateral, as defined in the FHLB Advance, Pledge and Security Agreement.

Federal and State Tax Exception

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.

Reclassification

Certain amounts reported in the 2016 consolidated financial statements have been reclassified to conform with the 2017 presentation.

Note 1 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

On January 5, 2016, the FASB issued Accounting Standards Update 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (the ASU). The changes to the current GAAP model primarily affect 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.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU 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 evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses. The ASU introduces a new accounting model, the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The FASB's CECL model utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For available-for-sale securities where fair value is less than cost, credit-related impairment, if any, will be recognized in an allowance for credit losses and adjusted each period for changes in expected credit risk. This model replaces the multiple existing impairment models in current GAAP, which generally require that a loss be incurred before it is recognized. The ASU will be effective for credit unions on December 31, 2021. Early application is permitted for annual periods beginning January 1, 2019.

Subsequent Events

Management has evaluated subsequent events through February 21, 2018, 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, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed securities	$826,053,737	$3,168,576	($1,692,580)	$827,529,733
Collateralized-mortgage obligations	558,744,283	1,707,902	(3,369,888)	557,082,297
Corporate notes	20,000,000	48,650	-	20,048,650
Total	$1,404,798,020	$4,925,128	($5,062,468)	$1,404,660,680

	As of December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
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
Total	$1,668,344,196	$2,425,932	($6,499,040)	$1,664,271,088

As of December 31, 2017 and 2016, the Credit Union held certain investments classified as asset-backed securities or collateralized-mortgage obligations that were acquired through mergers totaling approximately $69,449,000 and $78,758,000, respectively, that are no longer permissible under NCUA Regulations. The Credit Union has a temporary waiver from the NCUA to hold these securities for a time period not to exceed November 30, 2018. Prior to the expiration, the Credit Union will reevaluate these securities and submit an updated plan for approval.

Note 2 - Investment Securities (Continued)

The amortized cost and estimated fair value of investments as of December 31, 2017, 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.

	Available-for-sale	
	Amortized Cost	**Fair Value**
1 to 5 years	$20,000,000	$20,048,650
Asset-backed securities	826,053,737	827,529,733
Collateralized-mortgage obligations	558,744,283	557,082,297
Total	$1,404,798,020	$1,404,660,680

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

	As of December 31, 2017		
	Fair Value	**Capital Based Limit**	**Asset Based Limit**
By Security Type:			
Commercial MBS	$363,547,586	$917,862,810	$482,477,336
Auto loan/lease ABS	285,170,185	1,529,771,350	804,128,893
Credit card ABS	253,158,443	1,529,771,350	804,128,893
Mortgage-backed securities (not including commercial MBS)	224,166,401	3,059,542,700	1,608,257,786
FFELP student loan ABS	182,375,013	3,059,542,700	1,608,257,786
Other ABS	76,194,402	1,529,771,350	804,128,893
Corporate debt obligations	20,048,650	3,059,542,700	1,608,257,786

Note 2 - Investment Securities (Continued)

	As of December 31, 2017	
	Fair Value	Regulatory Limit
By Issuer:		
Chase Insurance Trust	$83,911,575	$152,977,135
MBMOT	68,979,440	74,488,568
COMET	45,061,500	152,977,135
BACCT	42,218,818	152,977,135
FORDF	36,228,760	74,488,568
VZOT 2016-2A	28,801,640	74,488,568
COELT 2005-A A3	27,120,708	74,488,568
ALLYA 2017-3	24,963,750	74,488,568
FORDO 2017-C A2B	19,996,400	74,488,568

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

	As of December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
Asset-backed securities	$317,797,539	($739,926)	$98,801,699	($952,654)	$416,599,238	($1,692,580)
Collateralized-mortgage obligations	217,906,435	(2,003,027)	103,539,861	(1,366,861)	321,446,296	(3,369,888)
Total	$535,703,974	($2,742,953)	$202,341,560	($2,319,515)	$738,045,534	($5,062,468)

	As of December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale:						
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)
Total	$728,040,056	($2,205,269)	$205,469,214	($4,293,771)	$933,509,270	($6,499,040)

Note 2 - Investment Securities (Continued)

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, 2017 and 2016.

Note 3 - Loans to Members

The composition of loans to members is as follows:

	2017	2016
Commercial:		
Term loans	$449,827,490	$381,678,034
Settlement loans	51,436,195	54,066,364
Total	$501,263,685	$435,744,398

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 Indicator:
- 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 Indicator:
- 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.

Member credit unions placed on the watch list have lines of credit of approximately $1,703,234,000 and $1,428,825,000 and outstanding loan balances of approximately $320,937,000 and $251,500,000 as of December 31, 2017 and 2016, respectively. There were two loans on the watch list totaling approximately $182,100,000 as of December 31, 2017, which were to member credit unions that have been conserved by the NCUA. NCUA has guaranteed payment of the balances of these loans.

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2017 and 2016 by major classification as follows:

	2017	**2016**
Computer equipment	$1,983,717	$1,826,675
Software	3,716,238	2,952,976
Furniture and equipment	3,725,464	3,291,848
Leasehold improvements	1,754,499	1,903,007
Software development in process	31,800	506,440
	11,211,718	10,480,946
Less accumulated depreciation	(5,778,878)	(4,510,663)
Total	$5,432,840	$5,970,283

Depreciation and amortization charged to office operations and office occupancy expenses was approximately $1,409,000 and $1,432,000 for the years ended December 31, 2017 and 2016, respectively.

Note 5 - Members' Shares and Certificates

Members' shares and certificates are summarized as follows:

	2017	**2016**
Daily shares	$2,401,770,511	$2,711,548,508
Share certificates	457,789,300	367,119,715
NPC shares	3,724,637	7,683,015
Total	$2,863,284,448	$3,086,351,238

The aggregate balance of members' certificates in denominations that meet or exceed $250,000 was approximately $395,014,000 as of December 31, 2017.

Note 5 - Members' Shares and Certificates (Continued)

Scheduled maturities of certificates are as follows:

	2017
Within one year	$260,119,300
1 to 2 years	97,444,000
2 to 3 years	69,229,000
3 to 4 years	24,198,000
4 to 5 years	6,799,000
Total	$457,789,300

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 the fair value of all unencumbered assets, 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	2017	2016
Fixed	1.41 %	1/31/2018	Balloon	$30,500,000	$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 $658,000 and $617,000 for the years ended December 31, 2017 and 2016, 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. The Credit Union made a discretionary contribution of approximately $298,000 for the year ended December 31, 2017. No discretionary contribution was made in 2016.

Note 7 - Employee Benefit Plans (Continued)

Investment in Life Insurance Contracts

The Credit Union holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Credit Union, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the statement of financial condition date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in non-interest income. Any income earned is used to offset company-wide benefit costs.

Split Dollar Life Insurance

During the year ended December 31, 2017, the Credit Union entered into a split dollar insurance agreement which is a collateral assignment arrangement between the Credit Union and a key employee. The agreement involves a method of paying for insurance coverage for the executive by splitting the elements of a life insurance policy. Under the agreement, the executive is the owner of the policy and makes a collateral assignment to the Credit Union in return for a loan equal to the amount of premiums to be paid on behalf of the executive plus accrued interest at a specific rate. At the time of death, the Credit Union will be paid the loan amount plus accrued interest and the balance of the insurance benefits will be paid to the executives' designated beneficiaries. As of December 31, 2017, the balance of the loan approximated $7,992,000, and is included in prepaid and other assets on the Credit Union's consolidated statements of financial condition.

Note 8 - Lease Commitments

The Credit Union leases several branch locations. The minimum non-cancellable lease obligations approximate the following as of December 31, 2017:

Year ending December 31,	Amount
2018	$1,327,000
2019	1,420,000
2020	1,455,000
2021	1,474,000
2022	2,519,000
Thereafter	2,502,000
	$10,697,000

Rental expense under operating leases was approximately $1,355,000 and $1,152,000 for the years ended December 31, 2017 and 2016, 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 members 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 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, 2017, the members' unused lines of credit approximated $8,492,035,000. The Credit Union evaluates each member credit unions' 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 a minimum capital requirement 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 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 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).

Note 10 - Regulatory Capital (Continued)

Beginning in October 2016, corporate credit unions were to begin excluding a portion of PCC from Tier 1 capital as defined in the NCUA Regulations. The portion of PCC excluded from Tier 1 capital also reduced daily average net assets and monthly moving average net risk-weighted assets for the applicable ratio calculations. Included in the definition of regulatory capital in the October 2011 revision was the definition of capital acquired in a merger. Specifically, the regulation required the recognition of the retained earnings of the merged corporate credit union on the date of the merger to be included in capital. Therefore, capital in the ratios presented below as of December 31, 2016, include the retained earnings carried over from mergers with Central Corporate Credit Union (CenCorp) during 2013 and System United Corporate Federal Credit Union (SunCorp) during 2015. Net worth at CenCorp and SunCorp at the time of their mergers was $17,235,538 and $7,333,096, respectively.

Effective December 22, 2017, several changes were made to the capital regulations pertaining to corporate credit unions. The revised regulations provide incentives to build retained earnings to at least 250 basis points by providing the following incentive if this is achieved:

- All PCC will be included in Tier 1 capital. If not, PCC in excess of retained earnings minus 200 basis points of daily average net assets, will be excluded from Tier 1 capital.
- Expanded authorities for corporate credit unions to engage in the following activities:
    - Engage in short sales
    - Purchase principal only stripped MBS securities
    - Enter into dollar roll transactions
    - Invest in certain foreign investments
    - Derivative transactions
    - Loan participations with natural person credit unions

The Credit Union's capital amounts used in the calculations for regulatory capital as of December 31, 2017, below are as follows:

	2017
Retained earnings	$56,921,875
Retained earnings from merged credit unions	24,568,634
Total regulatory retained earnings	81,490,509
Perpetual contributed capital	226,451,102
Investments in unconsolidated CUSOs	(5,711,974)
Tier 1 capital before PCC exclusion	302,229,637
PCC exclusion – effective December 2017	(78,601,488)
Tier 1 capital	$223,628,149
Tier 1 capital before PCC exclusion	$302,229,637
Non-perpetual capital	3,724,637
Total capital	$305,954,274

Note 10 - Regulatory Capital (Continued)

Daily average net assets (taking into account PCC deduction)	$3,239,353,879
Monthly moving average net risk-weighted assets	$1,155,779,402

The Credit Union's capital amounts used in the calculations for regulatory capital as of December 31, 2016, below are as follows:

	2016
Retained earnings	$52,401,461
Retained earnings from merged credit unions	24,568,634
Total regulatory retained earnings	76,970,095
Perpetual contributed capital	223,244,500
Investments in unconsolidated CUSOs	(5,505,502)
Tier 1 capital before PCC exclusion	294,709,093
PCC exclusion – effective October 2106	(106,020,357)
Tier 1 capital	$188,688,736
Tier 1 capital before PCC exclusion	$294,709,093
Non-perpetual capital	7,683,015
Total capital	$302,392,108

Daily average net assets (taking into account PCC deduction)	$3,135,113,767
Monthly moving average net risk-weighted assets	$1,092,477,633

Capital ratio	2017	2016	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio (1)	6.90%	6.02%	4.00%	5.00%
Tier 1 risk based capital ratio (2)	19.35%	17.27%	4.00%	6.00%
Total risk based capital ratio (3)	26.47%	27.68%	8.00%	10.00%
Retained earnings ratio (4)	2.46%	2.46%	N/A	N/A

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

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

Note 10 - Regulatory Capital (Continued)

As of December 31, 2017 and 2016, 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, 2015	($7,756,325)
Other comprehensive loss before reclassification	3,648,423
Amounts reclassified from other comprehensive loss	34,794
Net other comprehensive income	3,683,217
Balance as of December 31, 2016	(4,073,108)
Other comprehensive loss before reclassification	4,094,428
Amounts reclassified from other comprehensive loss	(158,660)
Net other comprehensive income	3,935,768
Balance as of December 31, 2017	($137,340)

Note 12 - Derivatives

At December 31, 2017 and 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

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 tables present the interest rate swaps that are reflected in the Credit Union's consolidated statements of financial condition:

Note 12 - Derivatives (Continued)

As of December 31, 2017

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	$311,094
JP Morgan Chase ($10,000,000)	2.08%	Prepaid and other assets	116,689
			$427,783

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

The following tables present gains/(losses) recorded in the consolidated statements of income for the interest rate swaps and caps:

	For the year ended December 31, 2017	
Derivative Type	Gain/(Losses) on Derivatives	Consolidated Income Statement Classification
Interest rate swap	$57,379	Gain on hedging instruments
Loan – fair value	(25,203)	Loss on market value of loans
	$32,176	Gain on financial instruments

	For the year ended December 31, 2016	
Derivative Type	Gain/(Losses) on Derivatives	Consolidated Income Statement Classification
Interest rate swap	$370,404	Gain on hedging instruments
Loan – fair value	(447,483)	Loss on market value of loans
	($77,079)	Loss on financial instruments

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, 2017, the Credit Union has no cash collateral requirement with JP Morgan Chase.

Note 12 - Derivatives (Continued)

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.

The following tables present 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, 2017	
Asset	**Loss**	**Consolidated Income Statement Classification**
Fixed-rate loans	($25,203)	Loss on financial instruments

	For the year ended December 31, 2016	
Asset	**Loss**	**Consolidated Income Statement Classification**
Fixed-rate loans	($447,483)	Loss on financial instruments

The following tables present the book value and fair value for loans measured at fair value pursuant to the fair value election option:

	As of December 31, 2017	
Asset	**Book Value**	**Fair Value**
Fixed-rate loans	$15,000,000	$14,527,314

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

Note 13 - Reverse Repurchase Agreements

During the year ended December 31, 2017, the Credit Union established two reverse repurchase agreements with JP Morgan Securities, LLC (JPMS). The reverse repurchase agreements are collateralized by securities held by JPMS. As of December 31, 2017, the two reverse repurchase agreements were each $50,000,000 and set to mature on January 5, 2018 and February 16, 2018, respectively. The fair value of the collateralized securities was approximately $105,000,000 as of December 31, 2017.

Note 14 - 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.

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.

Note 14 - Fair Value Measurements (Continued)

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 2 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 6 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 14 - Fair Value Measurements (Continued)

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

Interest Rate Swaps and Fixed-Rate Loans (Fair Value Option) - Receive-fixed, pay variable interest rate swaps are based on the London Interbank Offered Rate (LIBOR) swap rate.

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, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Asset-backed securities	$-	$796,898,043	$30,631,690	$827,529,733
Collateralized mortgage obligations	-	540,121,184	16,961,113	557,082,297
Corporate notes	-	20,048,650	-	20,048,650
Fixed-rate loans	-	14,527,314	-	14,527,314
Interest rate swap	-	427,782	-	427,782
	$-	$1,357,067,877	$47,592,803	$1,419,615,776

	Assets at Fair Value as of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
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 notes	-	5,018,350	-	5,018,350
Fixed-rate loans	-	14,552,517	-	14,552,517
Interest rate swap	-	370,404	-	370,404
	$-	$1,621,824,250	$57,369,759	$1,679,194,009

Note 14 - Fair Value Measurements (Continued)

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

	For the years ended December 31, 2017	2016
Balance, beginning of year	$57,369,759	$76,892,433
Proceeds from sales	(3,055,175)	(5,012,011)
Proceeds from repayments	(10,300,000)	(15,135,218)
Change in unrealized gains/(losses)	3,578,219	624,555
Balance, end of year	$47,592,803	$57,369,759

* * * End of Notes * * *

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Independent Auditor's Report

February 21, 2018

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

We have audited Alloya Corporate Federal Credit Union's internal control over financial reporting as of December 31, 2017, 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 2017.

Auditor's Responsibility

Our responsibility is to express an opinion on the institution'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.

DoerenMayhew

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

Definition and Inherent Limitations of Internal Control over Financial Reporting

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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 704.15 of the NCUA Regulations, our audit of Alloya Corporate Federal Credit Union's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the 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 dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity 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 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 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, 2017, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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 February 21, 2018, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Miami, FL

alloya®
Corporate Federal Credit Union

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Alloya Corporate Federal Credit Union
Management Report on Annual Report
2017

We, the undersigned, certify that:

1. We have reviewed the annual report (2017 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 2017, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2017.

Date: February 21, 2018

Todd M Adams

Todd M. Adams, CEO

N Brandt Peterson

N. Brandt Peterson, SVP, CFO