alloya®

Corporate Federal Credit Union

2019 Audited Financials

Chair's Comments

I am pleased to report that Alloya continued to fulfill its mission to support credit union success during 2019. For instance, Alloya paid out $45.7 million in cash dividends on regular shares and certificates and an additional $4.8 million on perpetual capital shares. Total dividends of $50.5 million in 2019 represented an increase of $13.8 million, or 38%, compared to the $36.7 million paid out in 2018. This single financial measure highlights the power of the cooperative model. As Alloya earned more income, it returned additional value to the membership.

Throughout 2019, Alloya remained safe, secure and relevant by generating net income of $23.2 million, increasing total members' equity to $360.1 million, funded every member loan request, ended the year with nearly $1 billion in cash and was compliant with all rules and regulations.

As the decade comes to a close, Alloya is very well positioned to serve credit unions in the future. Alloya enters 2020 as a top tier employer of choice, has a team of professionals and a Board of Directors focused on supporting credit union success and executing a strategic plan that is designed to increase value to the membership. We continue to ask ourselves how we can best meet our members' needs while also being a good steward of financial resources.

During 2019, Alloya exited the ALM and Investment Advisory business while at the same time increasing investments to enhance core services. For instance, Alloya will be launching a new version of Premier View that is designed to further simplify credit unions' back-office lives and is developing a new service to help credit unions greatly simplify the loan participation process.

Given Alloya's strong Leverage Capital Ratio of 9.9% and Tier I Risk Based Capital Ratio of 25.5% along with excess capacity within its systems, the Board of Directors elected to eliminate a barrier to business and approved a new Associate Membership program. Credit unions can now gain access to Alloya's Premier View technology and a wide range of services – all without contributing capital.

One example of Alloya pursuing its mission to support credit union success is the sponsorship of Suze Orman's *Women and Money* podcast for 2020. The sponsorship represents a unique and creative way for Alloya to complement the credit union awareness efforts that are being funded at local and national levels.

As the Chair of Alloya's Board of Directors, I am grateful for the opportunity to work alongside innovative and talented credit union leaders from across the country. With input from the membership, we work together to evolve Alloya's strategic plan and best position the corporate for the future.

On behalf of Alloya's Board of Directors, thank you for your continued support and engagement.

Floyd Rummel, III
February 21, 2020

Chief Executive Officer's Comments

Alloya's strategic goals continue to focus on advancing People/Culture, Member Service, Financial Performance and Compliance. While we try to advance each goal every year, the primary focus of the plan will shift depending on the needs of the business. For instance, when Alloya was first chartered in 2011, the primary focus centered on advancing financial and compliance goals. Once those goals were achieved, Alloya shifted strategic focus to further advance people/culture to become a top tier employer of choice. Currently, Alloya's primary strategic focus is on innovation and improving capabilities in an effort to further simplify credit unions' back-office lives.

People/Culture

One of our strategic goals is to maintain a team of professionals that are engaged and passionate about the mission of supporting credit union success. Today, Alloya remains a top tier employer of choice as evidenced by its score of 95 (out of 100) in the Gallup Q12 Employee Engagement Survey. Alloya's team of professionals are pleased to support credit unions and the work they do to improve the financial lives of their members and the communities they serve.

Member Service

Alloya continues to combine great technology with outstanding member service. Over 24,000 credit union employees accessed Premier View during 2019 to process nearly $1 trillion in payment transactions such as wires, ACH, checks and currency orders. While most of these transactions flow seamlessly through the systems, Alloya staff take great pride in being readily available to support exceptions.

During 2019, Alloya promoted its new online investment management system, Premier Portfolio. Credit union staff now have the choice to either buy investments online or call one of our investment representatives. Adoption is ramping up and 20% of investment trades are now completed through this technology.

Credit unions can expect more innovations in 2020 as Alloya plans to launch an updated version of Premier View that will offer features designed to make it even easier to process transactions through the system. Each credit union employee will be able to individualize their version of Premier View with a FastTrack function. We measure member service through an annual survey, and I am pleased to report that record scores were achieved in 2019 (4.8 out of a possible 5.0).

Financial Performance and Compliance

From a financial performance standpoint, Alloya once again exceeded its financial goals for 2019 and remained in compliance with all applicable rules and regulations. Highlights include net income of $23.2 million, total members' equity of $360.1 million, total assets of $3.6 billion, EBA balances of $2.6 billion and a leverage ratio of 9.9%. Alloya also continues to focus on efficiency and operating expenses, which increased less than 2% in 2019.

For more details on how Alloya supports credit union success, I encourage you to review the *2019 Report to Membership*, available on Alloya's website. On behalf of the Alloya team, I want to thank you for your continued support.

Todd M. Adams
February 21, 2020

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(With Independent Auditor's Report Thereon)

ALLOYA CORPORATE FEDERAL CREDIT UNION

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Independent Auditor's Report

February 20, 2020

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

Report on the Consolidated Financial Statements

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, 2019 and 2018, 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.

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, 2019 and 2018, 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, 2019, 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 20, 2020, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Miami, FL

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2019 AND 2018

Assets	2019	2018
Cash and cash equivalents	$985,453,160	$781,468,091
Investments securities:		
Available-for-sale	2,053,921,129	1,673,914,863
Loans, net of allowance for loan losses	284,916,750	477,444,724
Reverse repurchase agreements	245,000,000	-
Collateral Assignment Split Dollar (CASD)	11,833,569	12,052,495
Prepaid and other assets	15,907,292	11,046,797
Federal Home Loan Bank Capital (FHLB) stock	7,650,000	37,700
Property and equipment	3,641,281	5,482,053
Accrued interest receivable	5,529,093	5,514,915
Goodwill and other intangible assets	5,957,654	5,957,654
National Credit Union Share Insurance Fund (NCUSIF) deposit	3,176,972	3,266,809
Total assets	$3,622,986,900	$2,976,186,101
Liabilities and Members' Equity		
Liabilities:		
Members' shares and certificates	$3,233,969,516	$2,604,481,770
Deposits in collection	10,483,099	18,930,534
Accounts payable and other accrued liabilities	17,456,251	18,777,394
Accrued interest payable	983,864	1,200,604
Total liabilities	3,262,892,730	2,643,390,302
Commitments and contingent liabilities		
Members' equity:		
Perpetual contributed capital	241,899,646	237,937,317
Retained earnings and other equity	114,344,024	95,906,396
Accumulated other comprehensive income/(loss)	3,850,500	(1,047,914)
Total members' equity	360,094,170	332,795,799
Total liabilities and members' equity	$3,622,986,900	$2,976,186,101

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest income:		
Investments	$76,734,620	$54,150,547
Loans to members	8,675,481	14,351,623
Total interest income	85,410,101	68,502,170
Interest expense:		
Members' shares and certificates	45,652,997	33,181,208
Borrowings	2,121,141	1,937,698
Total interest expense	47,774,138	35,118,906
Net interest income	37,635,963	33,383,264
Provision for loan losses	269,187	-
Net interest income after provision	37,366,776	33,383,264
Non-interest income:		
Fee income, net of correspondent banking expenses	12,357,151	11,689,156
Balance Sheet Solutions fee income	6,412,635	6,986,283
Agent income from Excess Balance Account Program	4,369,973	3,391,065
Other income	783,932	556,498
Information technology services	715,949	598,481
Gain on disposal of assets	515,000	-
Gain on sale of available-for-sale investments	363,701	513,890
Total non-interest income	25,518,341	23,735,373
Non-interest expense:		
Compensation and benefits	25,523,169	25,108,037
Professional and outside services	5,519,928	4,278,640
Training, travel and communications	3,215,015	3,160,917
Office operations	2,254,179	2,348,095
Office occupancy	1,879,038	1,967,034
Miscellaneous	1,200,901	2,278,663
Loss on financial instruments	73,250	95,651
Total non-interest expenses	39,665,480	39,237,037
Net income	$23,219,637	$17,881,600

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net income	$23,219,637	$17,881,600
Other comprehensive income:		
Net unrealized holding gains on derivatives designated as cash flow hedges	438,589	571,523
Net unrealized holding gains/(losses) on investments classified as available-for-sale	4,823,526	(968,207)
Reclassification adjustments for gains included in net income	(363,701)	(513,890)
Other comprehensive income/(loss)	4,898,414	(910,574)
Comprehensive income	$28,118,051	$16,971,026

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2019 AND 2018

	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2017	$226,451,102	$81,490,509	($137,340)	$307,804,271
Net income	-	17,881,600	-	17,881,600
Perpetual contributed capital acquired from members - net	11,486,215	-	-	11,486,215
Dividends on perpetual contributed capital	-	(3,465,713)	-	(3,465,713)
Other comprehensive loss	-	-	(910,574)	(910,574)
Balance, December 31, 2018	237,937,317	95,906,396	(1,047,914)	332,795,799
Net income	-	23,219,637	-	23,219,637
Perpetual contributed capital acquired from members - net	3,962,329	-	-	3,962,329
Dividends on perpetual contributed capital	-	(4,782,009)	-	(4,782,009)
Other comprehensive income	-	-	4,898,414	4,898,414
Balance, December 31, 2019	$241,899,646	$114,344,024	$3,850,500	$360,094,170

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash flows from operating activities:		
Net income	$23,219,637	$17,881,600
Adjustments:		
Depreciation and amortization	1,486,241	1,624,427
Gain on sale of available-for-sale investments	(363,701)	(513,890)
Loss on financial instruments	73,250	95,651
(Gain)/loss from changes in fair value of loans	(1,986,523)	193,071
Net amortization/accretion of premiums and discounts on investment securities	(1,888,269)	(1,319,588)
Amortization of premiums on loan participations	62,102	-
Amortization of premium paid on derivatives contracts	304,156	222,758
Change in cash surrender value of CASD	218,926	-
Provision for loan losses	269,187	-
Changes in operating assets and liabilities:		
(Increase)/decrease in prepaid and other assets	(4,726,062)	262,227
Increase in accrued interest receivable	(14,178)	(2,292,410)
(Decrease)/increase in accrued interest payable	(216,740)	376,569
(Decrease)/increase in accounts payable and other accrued liabilities	(956,224)	5,605,073
Total adjustments	(7,737,835)	4,253,888
Net cash provided from operating activities	15,481,802	22,135,488

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

Cash Flows (Continued)

	2019	2018
Cash flows from investing activities:		
Proceeds from maturities, sales and repayments of available-for-sale investments	1,386,226,441	1,038,289,813
Purchase of available-for-sale investments	(1,759,520,912)	(1,307,192,615)
Net change in loans to members	214,978,350	23,625,890
Purchase of loan participations	(21,437,458)	-
Repayments of principal for loan participations	642,316	-
Expenditures for property and equipment	(83,638)	(1,673,640)
Purchase of repurchase agreements	(245,000,000)	-
Proceeds from maturity of repurchase agreement	-	100,000,000
Proceeds from sale of insurance contracts	-	14,922,745
Purchase of insurance contracts	-	(4,060,423)
(Increase)/decrease in FHLB stock	(7,612,300)	1,334,800
Increase in NCUSIF deposit	89,837	193,400
Net cash used in investing activities	(431,717,364)	(134,560,030)
Cash flows from financing activities:		
Net change in members' shares and certificates	629,487,746	(258,802,678)
Change in deposits in collection	(8,447,435)	18,000,034
Proceeds from borrowings	1,248,591,305	140,000,000
Payments on borrowings	(1,248,591,305)	(170,500,000)
Perpetual contributed capital raised	3,962,329	11,486,215
Dividends on perpetual contributed capital	(4,782,009)	(3,465,713)
Net cash provided from/(used in) financing activities	620,220,631	(263,282,142)
Net change in cash and cash equivalents	203,985,069	(375,706,684)
Cash and cash equivalents, beginning of year	781,468,091	1,157,174,775
Cash and cash equivalents, end of year	$985,453,160	$781,468,091

Supplemental Cash Flows Disclosure

Interest paid	$47,990,878	$34,742,338

Schedule of Non-Cash Transaction

Property disposed of due to office closure	$438,169	$-

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 provides liquidity, correspondent transaction and investment services to credit unions and their affiliated organizations through a national field of membership. The Credit Union is a "business to business" provider and is used by its member credit unions as their primary point of cash settlement and as a source for operational and term liquidity through an advised line of credit program. The Credit Union also offers a back office technology solution referred to as Premier View which represents an efficient and secure solution for member credit unions to process transactions such as wires, ACH, checks, international payments and coin and currency delivery to their branches and ATMs. The Credit Union further supports member credit unions by providing clearing, research, adjustment and compliance functions related to these transactions.

Balance Sheet Solutions, LLC (BSS) is a wholly-owned subsidiary of the Credit Union. 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 to its customers, principally credit unions and credit union service organizations. BSS was also registered as an investment advisor with the Securities and Exchange Commission (SEC) and provided nondiscretionary investment advisory services to its customers. As of May 31, 2019, BSS no longer provides investment advisory or asset and liability management services due to the sale of these business lines to McQueen Financial Advisors. As a result of this transaction, BSS recognized a gain approximating $515,000 which is reflected in the consolidated statements of income as gain on disposal of assets.

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) 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 allowance for loan losses and 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.

Note 1 - Significant Accounting Policies (Continued)

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, Fed Funds Sold as well as coin and currency maintained at a courier warehouse. Amounts due from banks may, at times, exceed federally insured limits.

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 $2,557,991,000 and $1,896,430,000 as of December 31, 2019 and 2018, 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.

Note 1 - Significant Accounting Policies (Continued)

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 estimated fair value of available-for-sale securities 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 securities, 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 and PNC 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 floor agreements. The interest rate swap 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 11). The Credit Union uses the fair value option for interest rate swap derivatives. Assets are recorded for realized gains and liabilities are recorded for realized losses. The interest rate floor derivatives are designated as cash flow hedges and are recorded on the balance sheet at fair value with the offsetting changes recorded in other comprehensive income. 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 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 derivatives and matched member loans are recorded in earnings and are included in loss on financial instruments in 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.

Note 1 - Significant Accounting Policies (Continued)

The Credit Union uses interest rate floor agreements to mitigate the potential risk associated with the volatility on the London Interbank Offered Rate (LIBOR) based assets that could result from declining interest rates. These derivative instruments are cash flow designated hedges and will be recorded on the balance sheet at fair value with the offsetting changes recorded in other comprehensive income (OCI). The Credit Union shall discontinue hedge accounting prospectively for an existing hedge if the derivative expires or is sold, terminated, or exercised, if the Credit Union removes the designation of the cash flow hedge, if the hedged item is no longer probable or if the hedging relationship fails to be highly effective. The net gain or loss through the effective date of the actions above remains in OCI until the hedged item impacts earnings unless hedged asset levels fall permanently below hedge levels. When hedge accounting is discontinued, the net gain or loss in OCI will be reclassified to interest income based on the cash flows modeled in the most recent effective derivative/hypothetical derivative relationship.

The interest rate floor derivatives are included with prepaid and other assets and the interest rate swap derivatives are included with accounts payable and other accrued liabilities in the consolidated statements of financial condition. The accrual of interest income or expense on derivative instruments is reported as a component of interest income or expense.

<u>Comprehensive Income/(Loss)</u>

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities are reported in a separate component of comprehensive income/(loss). Other comprehensive income/(loss) is limited to the changes in unrealized gains/(losses) on available-for-sale investments and offsetting changes of interest rate floor derivatives designated as cash flow hedges. When available-for-sale investments are sold, the gain/(loss) realized on the sale is reclassified from accumulated other comprehensive income/(loss) to the net gain/(loss) on sale of available-for-sale investments reported in the consolidated statements of income. Net gains/(losses) on derivative instruments that are designated as cash flow hedges are reclassified into earnings over the term of the instrument.

<u>Reverse Repurchase Agreements</u>

In 2019, the Credit Union entered into reverse repurchase agreements accounted for as secured borrowings at amortized cost. As the buyer-lender, the Credit Union bought the securities with an agreement to resell them to the seller-borrower at a stated price plus interest at a specified date. The balance of outstanding reverse repurchase agreements as of December 31, 2019 was $245,000,000.

Note 1 - Significant Accounting Policies (Continued)

Loans and Allowance for Loan Losses

Loans include loans to members and loan participations, net of allowance. 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 and is recognized over the term of the loan. 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.

Loan participations are considered as held for investment and are initially recorded at market value as of the settlement date, net of the allowance. The allowance is increased by provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is maintained at an amount that represents management's estimate of losses that may be sustained in the liquidation of currently outstanding loans. Any difference between the market price and par value is recorded as a premium or discount. The accretable premium or discount is amortized to interest income or expense using the straight-line method over the expected weighted average life of the loan pool. Accrued interest on the loans is recorded to interest income. Principal and interest payments on the loans are applied monthly to reduce loan participation asset and accrued interest balances.

Allowance Methodology

The Credit Union's member 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 member 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, 2019 or 2018. Additionally, none of the loans were past due or modified as of December 31, 2019 or 2018. 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 - Significant Accounting Policies (Continued)

Loan Participations

Loan participations, secured by vehicle loans, were purchased without recourse and the participating financial institution performs all loan servicing functions on these loans. The Credit Union records an allowance for loan loss provision equal to the estimated inherent losses attributed to the current portfolio. The following methodology is used by management to evaluate loan participations.

Loan Participation Credit Quality Indicators

Loan participations are segmented by loan pool and/or originator and the allowance is calculated by segment utilizing the following factors:

- Originating credit union recommended loss amount
- Originating credit union historical loss history for the loan type
- Qualitative and environmental factors which may include lending policy and procedure changes, economic condition changes, and the depth of the origination credit union's management experience

For the year ended December 31, 2019, the Credit Union recorded an allowance of approximately $269,000.

Property and Equipment

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. The Credit Union has no intangible assets with definite useful lives as of December 31, 2019 or 2018. Goodwill is the only intangible asset with an indefinite life in the Credit Union's consolidated statements of financial condition. Based on the annual impairment test performed December 31, 2019, there is no impairment on goodwill.

National Credit Union Share Insurance Fund (NCUSIF) Deposit

The deposit in the NCUSIF is in accordance with National Credit Union Administration (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. The majority of NPC Shares will be eligible for withdrawal in 2020 with the remaining shares eligible in 2021.

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.

Deposits in Collection

Deposits in collection represent deposits the Credit Union received on December 31 that will be credited to member share accounts the following business day.

Revenue Recognition

Fee income, net of correspondent banking expenses: The Credit Union earns fee income from its members for transaction-based services. Transaction-based services, which include services such as share-draft processing fees, coin and currency, and wiring fees, are recognized at the time the transaction is executed, as that is the point in time the Credit Union fulfills the member's request, concurrently with the correspondent banking expenses provided to the member.

Balance Sheet Solutions fee income: Income received through services provided by Balance Sheet Solutions consists of commission and service fees. Commission income for investment trades is recognized in the month of trade activity. Commission income for certificate of deposit sales is recognized over the life of the corresponding certificates or in the month of trade activity depending on the certificate type. Service fee income was generated from asset liability management (ALM) modeling and investment advisory services through May 2019. ALM modeling revenue is recognized over a 12-month period. Investment advisory services revenue is recognized in the month the service has been performed (See organization section of Footnote 1).

Agent income from Excess Balance Account Program: The Credit Union, as an agent, earns income based on a spread differential as a function of the balances maintained at the Federal Reserve Bank for the participant. Agent income is recognized in the month of activity.

Note 1 - Significant Accounting Policies (Continued)

Federal and State Tax Exemption

The Credit Union is exempt, from most federal, state and local taxes under the provisions of the Internal Revenue Code (IRC) and state tax laws. The Income Taxes Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) clarifies accounting for uncertainty in income taxes reported in the 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 IRC 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.

Reclassification

Certain amounts reported in the 2018 consolidated financial statements have been reclassified to conform with the 2019 presentation. Reclassification adjustments did not affect total members’ equity or net income.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (ASU) 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 January 1, 2021 with an option to early adopt.

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 the Credit Union on January 1, 2023. Early application is permitted for annual periods beginning January 1, 2019.

Note 1 - Significant Accounting Policies (Continued)

Subsequent Events

Management has evaluated subsequent events through February 20, 2020, the date the consolidated financial statements were available to be issued. On January 1, 2020, BSS officially became Alloya Solutions, LLC.

Note 2 - Investment Securities

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

	As of December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed securities	$1,513,703,452	$3,445,225	($2,830,508)	$1,514,318,169
Collateralized-mortgage obligations	529,996,267	3,468,239	(1,244,444)	532,220,062
Corporate notes	5,000,000	5,200	-	5,005,200
Agency securities	2,381,022	-	(3,324)	2,377,698
Total	$2,051,080,741	$6,918,664	($4,078,276)	$2,053,921,129

	As of December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed securities	$1,201,286,940	$833,244	($1,214,209)	$1,200,905,975
Collateralized-mortgage obligations	450,231,082	1,108,589	(2,325,692)	449,013,979
Corporate notes	20,000,000	850	(10,750)	19,990,100
Agency securities	4,016,278	-	(11,469)	4,004,809
Total	$1,675,534,300	$1,942,683	($3,562,120)	$1,673,914,863

Note 2 - Investment Securities (Continued)

In 2018, the Credit Union held certain investments classified as asset-backed securities or collateralized mortgage obligations that were acquired through mergers and that were no longer permissible under NCUA regulations. The Credit Union had a temporary waiver from the NCUA to hold these securities for a time period not to exceed November 30, 2018. These investments were sold during the year ended December 31, 2018 for a gain of approximately $4,376,000.

Proceeds from the sale of investments classified as available-for-sale approximated $252,076,000 during the year ended December 31, 2018. Gross gains and losses of approximately $4,587,000 and $4,073,000, respectively, were realized from sales during the year ended December 31, 2018. There were no sale of investments classified as available-for-sale during the year ended December 31, 2019. During the year ended December 31, 2019, the Credit Union recognized a gain of approximately $364,000 related to asset-backed securities that were called at a premium.

The amortized cost and estimated fair value of investments as of December 31, 2019, 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**
Within 1 year	$5,000,000	$5,005,200
Asset-backed securities	1,513,703,452	1,514,318,169
Collateralized-mortgage obligations	529,996,267	532,220,062
Agency securities	2,381,022	2,377,698
Total	$2,051,080,741	$2,053,921,129

Note 2 - Investment Securities (Continued)

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

	As of December 31, 2019		
	Fair Value	**Capital Based Limit**	**Asset Based Limit**
By Security Type:			
Auto loan/lease asset-backed securities	$660,583,111	$1,752,524,510	$905,746,725
Credit card asset-backed securities	299,218,861	1,752,524,510	905,746,725
Commercial mortgage-backed securities	338,303,987	1,051,514,706	543,448,035
FFELP student loan asset-backed securities	323,329,597	3,505,049,020	1,811,493,450
Mortgage-backed securities (excluding commercial mortgage-backed securities)	193,916,075	3,505,049,020	1,811,493,450
Other asset-backed securities	231,186,600	1,752,524,510	905,746,725
Corporate debt obligations	5,005,200	3,505,049,020	1,811,493,450
All other investments	2,377,698	350,504,902	181,149,345

	As of December 31, 2019	
	Fair Value	**Regulatory Limit**
By Issuer:		
JPM Repo	$245,000,000	$701,010,000
CCCIT	88,640,042	175,252,000
Peoples United Bank	75,000,000	175,252,000
AMXCA	65,877,120	175,252,000
VZOT 2018-1A	55,647,790	87,626,000
Customers Bank	50,000,000	175,252,000
COMET	47,226,536	175,252,000
GART 2019-1	46,925,985	87,626,000
COELT 2004-A	45,166,081	87,626,000
HEF 2014-1 A	38,353,742	87,626,000
DCENT	33,997,173	175,252,000
COPAR 2019-2	33,503,741	87,626,000
BACCT	33,384,590	175,252,000
COELT 2005-A	32,559,686	87,626,000

Note 2 - Investment Securities (Continued)

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, 2019					
	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	$257,116,904	($873,970)	$134,937,861	($1,956,538)	$392,054,765	($2,830,508)
Collateralized-mortgage obligations	180,116,761	(799,213)	86,921,843	(445,231)	267,038,604	(1,244,444)
Agency securities	-	-	2,377,698	(3,324)	2,377,698	(3,324)
Total	$437,233,665	($1,673,183)	$224,237,402	($2,405,093)	$661,471,067	($4,078,276)

	As of December 31, 2018					
	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	$699,015,739	($1,138,101)	$23,238,750	($76,108)	$722,254,489	($1,214,209)
Collateralized-mortgage obligations	115,828,580	(253,093)	161,344,008	(2,072,599)	277,172,588	(2,325,692)
Corporate notes	4,989,250	(10,750)	-	-	4.989,250	(10,750)
Agency securities	4,004,809	(11,469)	-	-	4,004,809	(11,469)
Total	$823,838,378	($1,413,413)	$184,582,758	($2,148,707)	$1,008,421,136	($3,562,120)

Unrealized losses on securities issued by the U.S. Government and its Agencies have not been recognized into income because of the implicit guarantee of the principal balances of these securities by the U.S. Government and its Agencies. The decline in fair value is primarily due to differences between security yields and market interest rates. Additionally, the decline in fair value is expected to be recovered as securities approach their maturity date and/or market rates decline. Management has the ability and intent to hold these securities through to recovery of fair value, which may be maturity.

Note 2 - Investment Securities (Continued)

The Credit Union evaluates each asset-backed security, collateralized-mortgage obligations, and corporate notes 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, collateralized-mortgage obligations or corporate notes during the years ended December 31, 2019 and 2018.

Note 3 - Loans

The composition of loans as of December 31, 2019 and 2018 is as follows:

	2019	**2018**
Commercial:		
Term loans	$181,593,795	$340,336,038
Settlement loans	82,859,102	137,108,686
	264,452,897	477,444,724
Loan participations:		
Vehicle	20,733,040	-
	285,185,937	447,444,724
Less: allowance for loan losses	(269,187)	-
Loans, net of allowance	$284,916,750	$477,444,724

The Credit Union has purchased loan participations from other credit unions, which are secured by autos. The balance of loan participations purchased approximated $21,437,000 for the year ended December 31, 2019. There were no loan participations purchased for the year ended December 31, 2018.

Note 3 - Loans (Continued)

Allowance for Loan Losses (Allowance)

The following table presents the activity in the allowance and a summary of the allowance by portfolio segment as of and for the year ended December 31, 2019:

	Commercial	Loan Participation	Total
Allowance:			
Beginning allowance	$-	$-	$-
Charge-offs	-	-	-
Recoveries	-	-	-
Provision for loan losses	-	269,187	269,187
Ending allowance	$-	$269,187	$269,187

There was no allowance recorded for the year ended December 31, 2018. The Credit Union had no impaired loans as of December 31, 2019 and 2018.

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans as of December 31, 2019:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Commercial:						
Term loans	$-	$-	$-	$-	$181,593,795	$181,593,795
Settlement loans	-	-	-	-	82,859,102	82,859,102
	-	-	-	-	264,452,897	264,452,897
Loan participations:						
Vehicle	73,065	-	-	73,065	20,659,975	20,733,040
Total	$73,065	$-	$-	$73,065	$285,112,872	$285,185,937

Note 3 - Loans (Continued)

There were no past due loans as of December 31, 2018. There were no loans on which the accrual of interest has been discontinued or reduced for the years ended December 31, 2019 and 2018.

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 \$1,773,998,000 and \$1,644,039,000 and outstanding loan balances of approximately \$140,800,000 and \$212,327,000 as of December 31, 2019 and 2018, respectively. Primarily due to a strong collateral position, the Credit Union has never experienced a loss on a loan to a member credit union.

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2019 and 2018, by major classification as follows:

	2019	2018
Computer equipment	$1,589,506	$2,223,575
Software	3,434,692	4,403,689
Furniture and equipment	4,061,142	4,393,112
Leasehold improvements	1,633,293	1,837,939
	10,718,633	12,858,315
Less accumulated depreciation	(7,077,352)	(7,376,262)
Total	$3,641,281	$5,482,053

Depreciation and amortization charged to office operations and office occupancy expenses was approximately $1,486,000 and $1,624,000 for the years ended December 31, 2019 and 2018, respectively.

Note 5 - Members' Shares and Certificates

Members' shares and certificates are summarized as follows:

	2019	2018
Daily shares	$2,864,645,014	$2,191,823,944
Share certificates	369,324,500	412,348,200
NPC shares	2	309,626
Total	$3,233,969,516	$2,604,481,770

The aggregate balance of members' certificates in denominations that meet or exceed $250,000 was approximately $330,266,000 as of December 31, 2019.

Note 5 - Members' Shares and Certificates (Continued)

Scheduled maturities of certificates as of December 31, 2019 are as follows:

	2019
Within one year	$313,802,500
1 to 2 years	43,983,000
2 to 3 years	9,739,000
3 to 4 years	1,800,000
4 to 5 years	-
Total	$369,324,500

Note 6 - Lines of Credit

Federal Home Loan Bank of Chicago (FHLBC)

As a member of the FHLBC, the Credit Union 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 eligible collateral, as defined in the FHLBC Statement of Credit Policy. There were no borrowings outstanding on this line of credit at December 31, 2019 and 2018.

JP Morgan Securities, LLC (JPM)

The Credit Union has established a repurchase line of credit agreement with JPM, secured by unencumbered, qualified investment securities. The interest rate charged varies depending on the collateral provided and the current market conditions. There were no borrowed funds outstanding under this agreement as of December 31, 2019 and 2018.

Various Financial Institutions

The Credit Union has established unsecured federal funds agreements with various financial institutions. The agreements provide for borrowings up to $70,000,000 in aggregate, with interest payable at a rate determined by the banks. There were no borrowed funds outstanding under these agreements as of December 31, 2019 and 2018.

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 $548,000 and $642,000 for the years ended December 31, 2019 and 2018, 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 discretionary contributions of approximately $288,000 and $308,000 for the years ended December 31, 2019 and 2018, respectively.

Collateral Assignment Split Dollar (CASD)

The Credit Union provides supplemental retirement benefits for certain Credit Union Executives through an arrangement the Internal Revenue Service (IRS) refers to as “collateral assignment split dollar” (CASD). Although the IRS requires CASD to be reported as loans, CASD is not an actual loan. There is neither a transfer of funds to the participant nor an obligation for the participant to pay those funds back. Instead, the Credit Union recovers its outlays plus interest from the underlying policy. The recovery right is a key advantage of CASD. With traditional deferred compensation, the Credit Union pays the benefit from corporate assets, never to recover those dollars. With CASD, the Credit Union recovers not only its outlays, but also interest that takes into account the time value of money.

In CASD, the Credit Union deposits dollars directly into a life insurance policy, with the Credit Union holding a lien on the policy to ensure repayment. At specified times and subject to vesting requirements, the participant may borrow from the cash value of the policy to supplement retirement income (provided there are sufficient policy values). Borrowing is carefully monitored and limited to assure that the policy will remain in effect until the participant’s death and will pay a death benefit at least sufficient to repay the Credit Union’s outlays plus interest. Any remaining death proceeds are divided between the Credit Union and the participant’s beneficiary as agreed upon by the parties. The CASD is recorded at the cash surrender value on the 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, 2019:

Year ending December 31,	Amount
2020	$1,560,000
2021	1,612,000
2023	1,345,000
2023	1,168,000
2024	1,125,000
Thereafter	1,758,000
	$8,568,000

Rental expense under operating leases was approximately $1,381,000 and $1,458,000 for the years ended December 31, 2019 and 2018, respectively.

On June 1, 2019, the Credit Union closed its office in West Covina, California and vacated the leased office space at that time which resulted in the disposal of property with a net book value of approximately $438,000. In December 2019, the Credit Union executed a coterminous sublease for this office space that will commence on January 1, 2020 with a term of 63 months. The lease commitment for this property is included in the lease obligations above.

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.

Note 9 - Off-Balance-Sheet Risk and Concentrations of Credit Risk (Continued)

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, 2019, the members' unused lines of credit approximated $9,689,873,000. 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.

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 retained earnings and other equity ratio is 3.23% as of December 31, 2019, therefore, by regulation the Credit Union exceeds the regulatory minimum of 2.50% allowing it to include all PCC as regulatory Tier 1 capital.

Note 10 - Regulatory Capital (Continued)

The NCUA made changes to the definition of Tier 1 and Tier 2 capital to help clarify the definition. The changes eliminated many of items that were either added or subtracted from capital to simplify the definition of regulatory capital.

Tier 1 Capital:

- Retained earnings
- Perpetual contributed capital
- Less:
  - Intangible assets that exceed one-half percent of the corporate credit union's moving daily average net assets,
  - Investments, both equity and debt, in unconsolidated CUSOs,
  - PCC received from federally insured credit unions that causes PCC minus retained earnings, all divided by moving daily average net assets, to exceed two percent when a corporate credit union's retained earnings ratio is less than two and one-half percent.

Tier 2 capital includes the following:

- Unamortized Nonperpetual Capital,
- Allowance for loan losses calculated under GAAP up to a maximum of 1.25% of risk-weighted assets,
- Any PCC deducted from Tier 1 capital,
- Forty-five percent of net unrealized gains (holding gains exceeding holding losses) on available-for-sale equity securities with readily determinable fair values.

Total capital include Tier 1 and Tier 2 capital.

Note 10 - Regulatory Capital (Continued)

The Credit Union's capital amounts used in the calculations for regulatory capital as of December 31, 2019 and 2018, are as follows:

	2019	2018
Total regulatory retained earnings	$114,344,024	$95,906,396
Perpetual contributed capital	241,899,646	237,937,317
Investments in unconsolidated CUSOs	(6,007,958)	(5,619,335)
Tier 1 capital before PCC exclusion	$350,235,712	$328,224,378
PCC exclusion – effective December 2017	-	-
Tier 1 capital	$350,235,712	$328,224,378
Tier 1 capital	$350,235,712	$328,224,378
Non-perpetual capital	2	309,626
Allowance for 1oan 1osses	269,187	-
PCC excluded from Tier 1 capital	-	-
45% of unrealized net gain on equity securities	-	-
Total capital	$350,504,901	$328,534,004
Daily average net assets (DANA)	$3,539,691,077	$3,190,980,069
Monthly moving average net risk-weighted assets (MMANRA)	$1,375,464,816	$1,054,194,324

Capital ratio	2019	2018	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio (1)	9.89%	10.29%	4.00%	5.00%
Tier 1 risk based capital ratio (2)	25.46%	31.14%	4.00%	6.00%
Total risk based capital ratio (3)	25.48%	31.16%	8.00%	10.00%
Retained earnings ratio (4)	3.23%	3.01%	N/A	N/A

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

Note 10 - Regulatory Capital (Continued)

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

As of December 31, 2019 and 2018, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

Note 11 - Derivatives

Interest Rate Swaps

As of December 31, 2019 and 2018, three 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
- January 2018, interest rate swap, ten year pay fixed, receive floating (1 Month LIBOR) with a $20,000,000 notional amount

The Credit Union's strategy is to hedge the interest rate risk associated with three 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 Credit Union has elected to use fair value accounting for these interest rate derivatives. The following tables present the interest rate swaps that are reflected in the Credit Union's consolidated statements of financial condition:

As of December 31, 2019

Swap counterparty (Notional Amount)	Pay Fixed Rate	Consolidated Statements of Financial Condition Classification	Fair Value
JP Morgan Chase ($5,000,000)	1.42%	Accounts Payable and other accrued liabilities	$67,573
JP Morgan Chase ($10,000,000)	2.08%	Accounts Payable and other accrued liabilities	(238,823)
JP Morgan Chase ($20,000,000)	2.63%	Accounts Payable and other accrued liabilities	(1,363,321)
			($1,534,571)

Note 11 - Derivatives (Continued)

As of December 31, 2018

Swap counterparty (Notional Amount)	Pay Fixed Rate	Consolidated Statements of Financial Condition Classification	Fair Value
JP Morgan Chase ($5,000,000)	1.42%	Prepaid and other assets	$355,101
JP Morgan Chase ($10,000,000)	2.08%	Prepaid and other assets	258,562
JP Morgan Chase ($20,000,000)	2.63%	Prepaid and other assets	(88,461)
			$525,202

Fair Value Option

The Credit Union has elected to carry at fair value certain loans that are being hedged with interest rate swap 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 gain/(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, 2019

Asset	Gain/(Losses)	Consolidated Statements of Income Classification
Fixed-rate loans	$1,986,523	Loss on financial instruments

For the year ended December 31, 2018

Asset	Gain/(Losses)	Consolidated Statements of Income Classification
Fixed-rate loans	($193,071)	Loss on financial instruments

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

For the year ended December 31, 2019

Derivative Type	Gain/(Losses) on Derivatives	Consolidated Statements of Income Classification
Interest rate swap	($2,059,773)	Loss on hedging instruments
Loan – fair value	1,986,523	Gain on market value of loans
	($73,250)	Loss on financial instruments

Note 11 - Derivatives (Continued)

For the year ended December 31, 2018

Derivative Type	Gain/(Losses) on Derivatives	Consolidated Statements of Income Classification
Interest rate swap	$97,420	Gain on hedging instruments
Loan – fair value	(193,071)	Loss on market value of loans
	($95,651)	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, 2019

Asset	Book Value	Fair Value
Fixed-rate loans	$35,000,000	$36,320,767

As of December 31, 2018

Asset	Book Value	Fair Value
Fixed-rate loans	$35,000,000	$34,334,244

Interest Rate Floors

At December 31, 2019, four interest rate floors were outstanding as follows:

- April 2018, interest rate floor, four year, 1 month LIBOR, strike rate 1.50%, with a $100,000,000 notional amount
- April 2018, interest rate floor, four year, 1 month LIBOR, strike rate 1.50%, with a $100,000,000 notional amount
- April 2018, interest rate floor, four year, 1 month LIBOR, strike rate 1.50%, with a $100,000,000 notional amount
- April 2018, interest rate floor, four year, 1 month LIBOR, strike rate 1.50%, with a $100,000,000 notional amount

Note 11 - Derivatives (Continued)

The Credit Union's strategy for the interest rate floor transactions is to offset the variable rate interest income on LIBOR indexed assets. The strategy places a floor under variable rate interest income, thereby reducing the Credit Union's exposure to interest rate fluctuations. The Credit Union has elected to use hedge accounting for the interest rate floor derivatives. The following tables present the interest rate floors that are reflected in the Credit Union's consolidated statements of financial condition:

As of December 31, 2019

Swap counterparty (Notional Amount)	Strike Rate	Consolidated Statements of Financial Condition Classification	Fair Value
PNC Bank ($100,000,000)	1.50%	Prepaid and other assets	$418,076
JP Morgan Chase ($100,000,000)	1.50%	Prepaid and other assets	418,304
JP Morgan Chase ($100,000,000)	1.50%	Prepaid and other assets	418,304
PNC Bank ($100,000,000)	1.50%	Prepaid and other assets	438,815
			$1,693,499

During the next 12 months, net gains/(losses) in accumulated other comprehensive income of approximately $146,000 on derivative instruments that qualify as cash flow hedges are expected to be reclassified into earnings. For open cash flow hedges, the maximum length of time over which forecasted transactions are hedged is approximately 3 years. The gains recorded in other comprehensive gains/(losses) for the interest rate floors were approximately $1,010,000.

Derivative Collateral

The Credit Union has interest rate hedges (swaps) with JP Morgan Chase and PNC Bank. These hedges required the initial and ongoing position of margin collateral. At December 31, 2019, the Credit Union had cash collateral requirements with PNC Bank for approximately $820,000 and JP Morgan Chase has cash collateral requirements with the Credit Union for approximately $880,000.

Note 12 - Reverse Repurchase Agreements

During the year ended December 31, 2019, the Credit Union established three reverse repurchase agreements with JPM. The reverse repurchase agreements were collateralized by securities held by JPM. As of December 31, 2019, the reverse repurchase agreements were for $50,000,000, $100,000,000 and $95,000,000 and set to mature on January 21, 2020, February 20, 2020 and May 15, 2020, respectively. The fair value of the collateralized securities was approximately $257,248,000 as of December 31, 2019. At December 31, 2019, JPM has cash collateral requirements with the Credit Union for approximately $3,554,000. There were no reverse repurchase agreements outstanding as of December 31, 2018.

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.

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.

Note 13 - Fair Value Measurements

Recurring Basis

Available-for-sale Securities
The following is a description of the valuation methodologies used for these securities:

Asset-backed securities - 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.

Collateralized-mortgage obligations - 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.

Agency Securities and Corporate Notes - These securities are classified as Level 2 in the fair value hierarchy. 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 LIBOR swap rate.

Interest Rate Floors - These contracts are classified as Level 2 in the fair value hierarchy and are valued based on movements in LIBOR indexed assets. 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, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Asset-backed securities	$-	$1,514,318,169	$-	$1,514,318,169
Collateralized mortgage obligations	-	532,220,062	-	532,220,062
Corporate notes	-	5,005,200	-	5,005,200
Agency securities	-	2,377,698	-	2,377,698
Fixed-rate loans	-	36,320,767	-	36,320,767
Interest rate swap	-	(1,534,571)	-	(1,534,571)
Interest rate floor	-	1,693,499	-	1,693,499
	$-	$2,090,400,824	$-	$2,090,400,824

Note 13 - Fair Value Measurements (Continued)

	Assets at Fair Value as of December 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Asset-backed securities	$-	$1,200,905,975	$-	$1,200,905,975
Collateralized mortgage obligations	-	449,013,979	-	449,013,979
Corporate notes	-	19,990,100	-	19,990,100
Agency securities	-	4,004,809	-	4,004,809
Fixed-rate loans	-	34,334,244	-	34,334,244
Interest rate swap	-	525,202	-	525,202
Interest rate floor	-	1,559,066	-	1,559,066
	$-	$1,710,333,375	$-	$1,710,333,375

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

	For the years ended December 31,	
	2019	**2018**
Balance, beginning of year	$-	$47,592,803
Proceeds from sales	-	(42,427,344)
Proceeds from repayments	-	(3,367,725)
Change in unrealized gains/(losses)	-	(1,797,734)
Balance, end of year	$-	$-

Note 14 - Changes in Accumulated Other Comprehensive Income/(Loss)

The following table presents the changes in accumulated other comprehensive income/(loss) by component for the years ended December 31, 2019 and 2018:

	Unrealized (Losses)/Gains on Available-for-Sale Securities	Unrealized (Losses)/Gains on Derivatives	Total
Balance, December 31, 2017	($137,340)	$-	($137,340)
Other comprehensive gains/(losses) before reclassifications	(968,207)	571,523	(396,684)
Amounts reclassified to consolidated income statement	(513,890)	-	(513,890)
Balance, December 31, 2018	(1,619,437)	571,523	(1,047,914)
Other comprehensive gains/(losses) before reclassifications	4,823,526	438,589	5,262,115
Amounts reclassified to consolidated income statement	(363,701)	-	(363,701)
Balance, December 31, 2019	$2,840,388	$1,010,112	$3,850,500

* * * End of Notes * * *

DoerenMayhew
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Independent Accountant's Report

February 20, 2020

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

We have examined management's assertion that Alloya Corporate Federal Credit Union maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Alloya Corporate Federal Credit Union's management is responsible for its assertion. Our responsibility is to express an opinion on management's assertion based on our examination.

Auditor's Responsibility

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertion is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertion. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

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.

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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, management's assertion that Alloya Corporate Federal Credit Union maintained effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Report on Consolidated Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statements 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 20, 2020, 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
2019

We, the undersigned, certify that:

1. We have reviewed the annual report (2019 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 2019, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2019.

Date: February 20, 2020

Todd M Adams | Tracy Lafferty

Todd M. Adams, CEO | Tracy Lafferty, CFO