alloya®

Corporate Federal Credit Union

2020 Audited Financials

Report of the Chairman

On March 11, 2020, the World Health Organization declared COVID-19 a global health pandemic and our world changed overnight. Economic activity slowed dramatically, the stock market plummeted, and personal health and safety became the primary concern for most people and organizations. The Federal Reserve acted quickly to reduce short-term interest rates and the government passed the Coronavirus Aid, Relief and Economic Security (CARES) Act to provide financial stimulus. With great uncertainty swirling around us, Alloya's mission to support credit union success remained constant.

At Alloya's Board of Directors meeting on March 18, 2020, an action was passed to create an unbudgeted grant program to provide funding to credit unions as they implemented plans to protect their staff, serve their members and support their communities. To qualify for a grant of up to $5,000, the credit union simply needed to submit a story about why these funds were needed; cash was deposited into their account within one day. Alloya received 206 inspirational stories from its membership and captured the struggles associated with this moment in history. Alloya was not alone in thinking of creative ways for credit unions to support each other. Phase II of the program enabled Alloya to provide grants to leagues, associations, the National Credit Union Foundation and other partners to complement their assistance initiatives.

The CARES Act legislation included a provision to strengthen NCUA's Central Liquidity Facility (CLF), which gives credit unions access to the Treasury. Alloya committed $236 million to subscribe to the CLF capital stock, acting as an agent on behalf of all credit union members under $250 million in assets. With full cooperation from corporate credit unions and several natural person credit unions over $250 million in assets, CLF borrowing capacity was increased to over $30 billion. With so much economic uncertainty early in the year, this action provided support that, thankfully, has not been needed.

After the Federal Reserve reduced the federal funds rate to 0.10%, many companies responded by reducing or eliminating dividends. In contrast, Alloya maintained the dividend rate on members' Permanent Contributed Capital (PCC) and paid out $5.5 million during 2020 – the highest rate of any corporate.

Throughout the year, Alloya adjusted plans while also remaining focused on advancing its longer-term strategic goals. Highlights included an updated Premier View, the launch of an efficient, online Loan Participation Platform, and an investment in Aptys Solutions, LLC. I am also pleased to report that Alloya remained safe, secure and relevant by generating $20.6 million of net income, ending the year with $398.3 million of members' equity, and remaining compliant with all applicable rules and regulations.

As we embrace 2021 and the hope it represents for many, Alloya looks forward to commemorating its tenth year of service to the credit union movement. While the last 10 years represent tremendous growth and achievement, I assure you that the best is yet to come at Alloya.

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 member input, we collaborate to advance Alloya's strategic plan to enhance the value proposition for credit union members.

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

Floyd Rummel, III
March 1, 2021

Report of the CEO

While many organizations turned inward to ensure their survival in 2020, Alloya was fortunate to be able to look outward and provide support to credit unions, industry leagues, associations and partners, and charitable organizations. We were inspired every day by the efforts of our member credit unions to support their communities during a time of great need. Alloya developed innovative programs to support credit union success while also advancing its strategic goals of People/Culture, Member Service and Financial Performance.

People/Culture

The day COVID-19 was declared a pandemic, the majority of Alloya's employees began working from home and all business travel was canceled. Our goal was to best protect the safety of our employees and to ensure uninterrupted operations for our members. The team of professionals were more engaged in the corporate's purpose than ever before – attaining a record-shattering score of 99 out of 100 on the annual employee engagement survey even while adapting to a new "remote first" operating environment.

Member Service

Alloya remained focused on simplifying credit unions' back-office lives and achieved several milestones in 2020. After two years of hard work, development and member input, Alloya launched a modernized version of its state-of-the-art Premier View technology that makes it even easier and more efficient for 24,000 credit union professionals to use the system and complete a wide range of payment, liquidity and investment transactions.

Alloya also launched its Loan Participation Program to greatly simplify and standardize a transaction that can otherwise be complex. More importantly, however, this program will keep high-performing loans within the credit union community and make loan participations an option for credit unions of all sizes.

With an eye towards the future of electronic payments and real-time settlement, Alloya also completed a strategic investment in Aptys Solutions, LLC. Now, as a credit union-owned and controlled credit union service organization (CUSO), Aptys' advanced technologies will serve as a foundation for Alloya's future electronic payment strategies.

At Alloya, we believe advanced technology should be supported by outstanding member service and we have maintained our standard that a live person (not a phone tree) will answer your call within four seconds. Members continue to react positively to this value proposition, and I am pleased to report that Alloya earned a record net promoter score of 79.5 during 2020.

Financial Performance and Compliance

Alloya experienced significant deposit and asset growth during 2020 as members saved money and prepared for financial uncertainties. Financial highlights include net income of $20.6 million, total members' equity of $398.3 million and total assets of $7.2 billion.

For more details on how Alloya supports credit union success, I encourage you to review the *2020 Report to Membership*, to be released in days ahead. On behalf of the Alloya team, we thank all 1,400 credit union members for their continued support and look forward to a bright future together.

Todd M. Adams
March 1, 2021

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(With Independent Auditor's Report Thereon)

ALLOYA CORPORATE FEDERAL CREDIT UNION

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DoerenMayhew
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Independent Auditor's Report

February 26, 2021

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, 2020 and 2019, 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

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, 2020 and 2019, 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.

Report on Internal Controls over Financial Reporting

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, 2020, based on criteria established in Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2021, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Troy, MI

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2020 AND 2019

Assets	2020	2019
Cash and cash equivalents	$3,383,268,779	$985,453,160
Investments securities:		
Available-for-sale	3,301,637,933	2,053,921,129
Loans, net of allowance for loan losses	256,095,374	284,916,750
CLF Capital Stock	118,199,921	—
Reverse repurchase agreements	50,000,000	245,000,000
Collateral Assignment Split Dollar (CASD)	11,315,545	11,833,569
Prepaid and other assets	18,130,354	15,907,292
Federal Home Loan Bank Capital (FHLB) stock	7,650,000	7,650,000
Property and equipment	1,833,534	3,641,281
Accrued interest receivable	3,571,341	5,529,093
Goodwill and other intangible assets	5,957,654	5,957,654
National Credit Union Share Insurance Fund (NCUSIF) deposit	3,265,509	3,176,972
Total assets	$7,160,925,944	$3,622,986,900
Liabilities and Members' Equity		
Liabilities:		
Members' shares and certificates	$6,725,332,053	$3,233,969,516
Deposits in collection	14,937,468	10,483,099
Borrowings	4,000,000	—
Accounts payable and other accrued liabilities	18,001,762	17,456,251
Accrued interest payable	348,717	983,864
Total liabilities	6,762,620,000	3,262,892,730
Commitments and contingent liabilities		
Members' equity:		
Perpetual contributed capital	244,522,326	241,899,646
Retained earnings and other equity	129,445,866	114,344,024
Accumulated other comprehensive income/(loss)	24,337,752	3,850,500
Total members' equity	398,305,944	360,094,170
Total liabilities and members' equity	$7,160,925,944	$3,622,986,900

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest income:		
Investments	$47,578,118	$76,734,620
Loans to members	6,527,478	8,675,481
Total interest income	54,105,596	85,410,101
Interest expense:		
Members' shares and certificates	13,723,999	45,652,997
Borrowings	465,011	2,121,141
Total interest expense	14,189,010	47,774,138
Net interest income	39,916,586	37,635,963
Provision for loan losses	219,269	269,187
Net interest income after provision	39,697,317	37,366,776
Non-interest income:		
Fee income, net of correspondent banking expenses	13,082,855	12,357,151
Alloya Solutions commissions and fee income	7,568,001	6,412,635
Agent income from Excess Balance Account Program	1,327,069	4,369,973
Other income	979,175	1,147,633
Information technology services	650,255	715,949
Prepayment penalty on loans	880,400	—
Gain on disposal of assets	—	515,000
Total non-interest income	24,487,755	25,518,341
Non-interest expense:		
Compensation and benefits	27,089,407	25,523,169
Professional and outside services	5,762,922	5,519,928
Training, travel and communications	2,595,807	3,215,015
Office operations	2,173,689	2,254,179
Office occupancy	2,355,852	1,879,038
Miscellaneous	3,227,172	1,200,901
Loss on disposal of assets	355,351	—
Loss on financial instruments	24,262	73,250
Total non-interest expenses	43,584,462	39,665,480
Net income	$20,600,610	$23,219,637

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income	$20,600,610	$23,219,637
Other comprehensive income:		
Net unrealized holding gains on derivatives designated as cash flow hedges	8,364,178	438,589
Net unrealized holding gains/(losses) on investments classified as available-for-sale	15,218,929	4,823,526
Reclassification adjustments for gains included in net income	(3,095,855)	(363,701)
Other comprehensive income/(loss)	20,487,252	4,898,414
Comprehensive income	$41,087,862	$28,118,051

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2020 AND 2019

	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income/(Loss)	Total
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	3,962,329	—	—	3,962,329
Dividends on perpetual contributed capital	—	(4,782,009)	—	(4,782,009)
Other comprehensive loss	—	—	4,898,414	4,898,414
Balance, December 31, 2019	$241,899,646	$114,344,024	$3,850,500	$360,094,170
Net income	—	20,600,610	—	20,600,610
Perpetual contributed capital acquired from members	2,622,680	—	—	2,622,680
Dividends on perpetual contributed capital	—	(5,498,768)	—	(5,498,768)
Other comprehensive income	—	—	20,487,252	20,487,252
Balance, December 31, 2020	$244,522,326	$129,445,866	$24,337,752	$398,305,944

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash flows from operating activities:		
Net income	$20,600,610	$23,219,637
Adjustments:		
Depreciation and amortization	1,487,881	1,486,241
Gain on call of available-for-sale investments	—	(363,701)
Loss on financial instruments	24,262	73,250
Gain from changes in fair value of loans	(2,510,138)	(1,986,523)
Net amortization/accretion of premiums and discounts on investment securities	2,141,544	(1,888,269)
Amortization of premiums on loan participations	306,816	62,102
Amortization of premium paid on derivatives contracts	119,766	304,156
Accretion of gain on sale of interest rate floors	(3,095,855)	—
Change in cash surrender value of CASD	518,024	218,926
Loss on disposal of fixed assets	355,351	—
Provision for loan losses	219,269	269,187
Changes in operating assets and liabilities:		
Increase in prepaid and other assets	(3,916,560)	(4,726,062)
Decrease/(increase) in accrued interest receivable	1,957,752	(14,178)
(Decrease) in accrued interest payable	(635,147)	(216,740)
(Decrease)/increase in accounts payable and other accrued liabilities	3,298,861	(956,224)
Total adjustments	271,826	(7,737,835)
Net cash provided from operating activities	20,872,436	15,481,802

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2020 AND 2019

Cash Flows (Continued)

	2020	2019
Cash flows from investing activities:		
Proceeds from maturities, sales and repayments of available-for-sale investments	1,601,649,905	1,386,226,441
Purchase of available-for-sale investments	(2,839,061,616)	(1,759,520,912)
Proceeds from sale of interest rate floors	9,937,910	—
Net change in loans to members	24,383,679	214,978,350
Purchase of loan participations	—	(21,437,458)
Repayments of principal for loan participations	6,421,740	642,316
Expenditures for property and equipment	(40,795)	(83,638)
Purchase of repurchase agreements	(587,720,097)	(245,000,000)
Proceeds from maturity of repurchase agreement	782,720,097	—
Purchase of CLF Capital Stock	(118,199,921)	—
Increase in FHLB stock	—	(7,612,300)
(Decrease)/Increase in NCUSIF deposit	(88,537)	89,837
Net cash used in investing activities	(1,119,997,635)	(431,717,364)
Cash flows from financing activities:		
Net change in members' shares and certificates	3,491,362,537	629,487,746
Change in deposits in collection	4,454,369	(8,447,435)
Proceeds from borrowings	535,008,041	1,248,591,305
Payments on borrowings	(531,008,041)	(1,248,591,305)
Perpetual contributed capital raised	2,622,680	3,962,329
Dividends on perpetual contributed capital	(5,498,768)	(4,782,009)
Net cash provided from/(used in) financing activities	3,496,940,818	620,220,631
Net change in cash and cash equivalents	2,397,815,619	203,985,069
Cash and cash equivalents, beginning of year	985,453,160	781,468,091
Cash and cash equivalents, end of year	$3,383,268,779	$985,453,160

Supplemental Cash Flows Disclosure

Interest paid	$14,824,158	$47,990,878

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.

Alloya Solutions, LLC (AS) is a wholly-owned subsidiary of the Credit Union. AS 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. AS offers securities transactions to its customers, principally credit unions and credit union service organizations. AS also offers time deposit products to financial institutions through its partnership with Primary Financial Company LLC. AS 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, AS 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, AS recognized a gain approximating $515,000 which is reflected in the consolidated statements of income as gain on disposal of assets for the year ending December 31, 2019.

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, AS. All significant intercompany balances and transactions have been eliminated in consolidation.

Comprehensive Income/(Loss)

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) (OCI). OCI is limited to the changes in unrealized gains/(losses) on available-for-sale investments and offsetting changes of interest rate floor and interest rate swap derivatives designated as hedges. When available-for-sale investments are sold, the gain/(loss) realized on the sale is reclassified from accumulated other comprehensive income/(loss) (AOCI) 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.

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 $5,952,584,000 and $2,557,991,000 as of December 31, 2020 and 2019, 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.

Note 1 - Significant Accounting Policies (Continued)

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 OCI. 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

In the normal course of business, the Credit Union is subject to risk from fluctuations in interest rates. The Company manages these risks through a program that includes the use of derivative financial instruments, primarily swaps and floors. Counterparties to these contracts are major financial institutions. The Credit Union is exposed to credit loss in the event of nonperformance by these counterparties. The Credit Union does not use derivative instruments for trading or speculative purposes.

The Credit Union uses interest rate swap agreements to offset the changes in fair value of certain member loans and available for sale securities attributable to interest rate volatility. The Credit Union has used interest rate floor agreements to mitigate the potential risk associated with the volatility in cash flows on London Interbank Offered Rate (LIBOR) based assets that could result from declining interest rates.

Note 1 - Significant Accounting Policies (Continued)

All of the Credit Union's outstanding derivative financial instruments are recognized in the consolidated statement of financial condition as an asset or liability at fair value (See Note 11). The effect on earnings from recognizing the fair values of these derivative financial instruments depends on their intended use, their hedge designation, and their effectiveness in offsetting changes in the fair values of the exposures they are hedging. ASC 815 allows an entity to assume perfect effectiveness in a hedging relationship of interest rate risk involving a recognized interest-bearing asset or liability and an interest rate swap if certain criteria are met (short-cut method). Utilizing the short cut method allows an entity to conclude that changes in fair value attributable to the risk being hedged are expected to completely offset at inception and on an ongoing basis. The Credit Union has applied the short cut method for derivative transactions designated as fair value hedges if they meet the criteria specified in the standard.

Changes in the fair values of derivative instruments that are not designated as hedges or do not qualify for hedge accounting treatment are reported currently in earnings. Amounts reported in earnings are classified consistent with the item being hedged. For derivative instruments designated as fair value hedges, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings. The Credit Union includes the gain or loss on the hedged items (i.e., fixed-rate investments or loans) in the same line item (interest income) as the offsetting loss or gain on the related interest rate swaps. Changes in the fair values of instruments used to reduce or eliminate adverse fluctuations in cash flows of anticipated or forecasted transactions are reported in equity as a component of AOCI. Amounts in AOCI are reclassified to earnings when the related hedged items affect earnings or the anticipated transactions are no longer probable.

The Company discontinues the use of hedge accounting prospectively when (1) the derivative instrument is no longer effective in offsetting changes in fair value or cash flows of the underlying hedged item; (2) the derivative instrument expires, is sold, terminated, or exercised; or (3) designating the derivative instrument as a hedge is no longer appropriate.

Note 1 - Significant Accounting Policies (Continued)

CLF Capital Stock

In 2020, the U.S. Government enacted the Cares Act which included legislative changes that strengthened the Central Liquidity Fund (CLF) program. The CLF is the channel for credit unions to access funds from the U.S. Treasury. This legislation is temporary and is set to expire on December 31, 2021. The Credit Union, as a corporate credit union, can act as an Agent on behalf of its member credit unions with assets under \$250,000,000. The Credit Union may also become a direct member in the CLF. The Credit Union invested approximately \$218,000,000 on behalf of its members and \$18,000,000 for direct CLF access, for a combined investment total of \$236,000,000 which provides access to liquidity up to \$25,000,000,000 depending on need, financial condition and CLF capacity. One half of this amount or \$118,000,000 was immediately invested in the CLF with the remaining amount being "on call". The CLF capital stock is carried at cost and its disposition is restricted. Based on its restricted nature, no ready market exists for this investment and it has no quoted market value.

Reverse Repurchase Agreements

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, 2020 and 2019 was approximately \$50,000,000 and \$245,000,000, respectively.

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 premium or discount is amortized or accreted to interest income using the effective yield 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.

Note 1 - Significant Accounting Policies (Continued)

Allowance for Loan Losses

Member Loans - The Credit Union's member loan portfolio consists only of loans made to member credit unions, credit union service organizations (CUSOs) and other affiliated 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:

Settlement loans and fixed-rate term loans are evaluated on a loan-by-loan basis. All loans are generally secured by a blanket lien against the assets of the member credit union, CUSO or affiliate. 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.

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. If management determines that a loan is impaired, an impairment is recognized through an allowance. There were no impaired loans as of December 31, 2020 or 2019. Additionally, 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. None of the loans were on non-accrual status or modified as of December 31, 2020 or 2019.

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:

Note 1 - Significant Accounting Policies (Continued)

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, 2020 and 2019, the Credit Union has an allowance for loan loss of approximately $372,000 and $269,000, respectively.

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.

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, 2020 or 2019. 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, 2020, there is no impairment on goodwill.

Note 1 - Significant Accounting Policies (Continued)

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. All remaining NPC shares were withdrawn in February 2021.

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.

Note 1 - Significant Accounting Policies (Continued)

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 automated clearing house (ACH) and share-draft processing fees, coin and currency vault and delivery services, and wire 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.

AS fee income: Income received through services provided by AS consists of commissions and service fees. Commission income for investment trades is recognized in the month of trade activity. Service fee income was generated from asset liability management (ALM) modeling and investment advisory services through May 2019. ALM modeling revenue was recognized over a 12-month period. Investment advisory services revenue was recognized in the month the service was performed (See organization section of Footnote 1). Deferred revenues related to unrecognized ALM modeling income was transferred as part of the sale of this business segment in May 2019.

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 and is included in Non-interest income on the consolidated statements of income.

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 2019 consolidated financial statements have been reclassified to conform with the 2020 presentation. Reclassification adjustments did not affect total members' equity or net income.

Note 1 - Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

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 guidance is effective January 1, 2023, with an option to early adopt.

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 January 1, 2022 with an option to early adopt.

Subsequent Events

Management has evaluated subsequent events through February 26, 2021, the date the consolidated financial statements were available to be issued.

Note 2 - Investment Securities

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

	As of December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed securities	$1,654,241,119	$5,417,265	($2,486,951)	$1,657,171,433
Collateralized-mortgage obligations	1,110,951,814	10,888,372	(902,463)	1,120,937,723
Corporate notes	14,016,083	25,057	—	14,041,140
Agency securities	507,147,212	2,911,716	(571,291)	509,487,637
Total	$3,286,356,228	$19,242,410	($3,960,705)	$3,301,637,933

	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

Available-for-sale securities as of December 31, 2020 includes approximately $454,430,000 (book value) of hedged assets. Losses relating to the hedged risk on these investments of approximately $2,778,000 were reclassified out of AOCI to interest income to offset the gains recorded on the related interest rate swaps. Therefore, the ending AOCI attributed to investments not used as hedge assets is approximately $18,059,000.

Note 2 - Investment Securities (Continued)

There were no sales of investments classified as available-for-sale during the year ended December 31, 2020 or 2019.

The amortized cost and estimated fair value of investments as of December 31, 2020, 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	$—	$—
1 to 5 years	236,199,504	236,568,783
Over 5 years	284,963,791	286,959,994
Asset-backed securities	1,654,241,119	1,657,171,433
Collateralized-mortgage obligations	1,110,951,814	1,120,937,723
Total	$3,286,356,228	$3,301,637,933

The following tables represent concentration limits on investments based on parameters established by *NCUA Regulation 704.5.* Per NCUA regulation Agency and GSE debt securities are not subject to capital or asset based limits.

	As of December 31, 2020		
	Fair Value	**Capital Based Limit**	**Asset Based Limit**
<u>By Security Type</u>:			
Auto loan/lease asset-backed securities	$558,396,729	$1,828,084,000	$1,790,231,000
Credit card asset-backed securities	581,151,096	1,828,084,000	1,790,231,000
Commercial mortgage-backed securities	558,332,390	1,096,850,000	1,074,139,000
FFELP student loan asset-backed	260,138,916	3,656,167,000	3,580,463,000
Mortgage-backed securities (excluding commercial mortgage-backed securities)	562,605,333	3,656,167,000	3,580,463,000
Other asset-backed securities	257,484,690	1,828,084,000	1,790,231,000
Corporate debt obligations	14,041,140	3,656,167,000	3,580,463,000

Note 2 - Investment Securities (Continued)

	As of December 31, 2020	
	Fair Value	**Regulatory Limit**
By Issuer:		
CCCIT	$145,204,426	$182,808,000
AMXCA	127,371,216	182,808,000
DCENT	99,786,255	182,808,000
Chase Issuance Trust	77,449,373	182,808,000
COMET	75,321,840	182,808,000
BACCT	56,017,986	182,808,000
VZOT 2019-B	50,984,909	91,404,000
JPM	50,000,000	731,233,000

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, 2020					
	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	$192,298,020	($107,056)	$180,028,381	($2,379,895)	$372,326,401	($2,486,951)
Collateralized-mortgage obligations	243,546,794	(799,782)	54,837,685	(102,681)	298,384,479	(902,463)
Agency securities	118,476,269	(561,570)	1,995,355	(9,721)	120,471,624	(571,291)
Total	$554,321,083	($1,468,408)	$236,861,421	($2,492,297)	$791,182,504	($3,960,705)

	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)

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, 2020 and 2019.

Note 3 - Loans

The composition of loans as of December 31, 2020 and 2019 is as follows:

	2020	2019
Member:		
Term loans	$219,250,381	$181,593,795
Settlement loans	23,328,976	82,859,102
	242,579,357	264,452,897
Loan participations:		
Vehicle	13,888,346	20,733,040
	256,467,703	285,185,937
Less: allowance for loan losses	(372,329)	(269,187)
Loans, net of allowance	256,095,374	$284,916,750

The Credit Union purchased loan participations from other credit unions in the year ended December 31, 2019, which are secured by autos. The balance of loan participations purchased approximated $21,437,000 for the year ended December 31, 2019.

Term loan balances include fair value gains of approximately $3,831,000 and $1,321,000 for the years ended December 31, 2020 and 2019, respectively. These gains are related to specific member fixed rate loans that are underlying assets for interest rate swap derivatives (see Note 11).

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, 2020:

	Member	Loan Participation	Total
Allowance:			
Beginning allowance	$—	$269,187	$269,187
Charge-offs	—	(116,138)	(116,138)
Recoveries	—	11	11
Provision for loan losses	—	219,269	219,269
Ending allowance	$—	$372,329	$372,329

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:

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

The Credit Union had no impaired loans as of December 31, 2020 and 2019.

Note 3 - Loans (Continued)

Age Analysis of Past Due Loans

The following table presents the aging of the recorded investment in past due loans as of December 31, 2020:

	30-59 Days Past Due	60-89 Days Past Due	90 Days and Greater Past Due	Total Past Due	Current	Total Loans
Member:						
Term loans	$—	$—	$—	$—	$219,250,381	$219,250,381
Settlement loans	—	—	—	—	23,328,976	23,328,976
	—	—	—	—	242,579,357	242,579,357
Loan participations:						
Vehicle	—	38,763	—	38,763	13,849,583	13,888,346
Total	$—	$38,763	$—	$38,763	$256,428,940	$256,467,703

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
Member:						
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 non-performing loans on which the accrual of interest has been discontinued or reduced or loans 90 days or more past due for the years ended December 31, 2020 and 2019.

Credit Quality Indicators

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 $1,772,520,000 and $1,773,998,000 and outstanding loan balances of approximately $140,000,000 and $140,800,000 as of December 31, 2020 and 2019, respectively. Primarily due to a strong collateral position, the Credit Union has never experienced a loss on a loan to a member credit union.

The Credit Union recognized net gains of approximately $880,000 related to the early prepayment of term loans for the year ended December 31, 2020. These gains are included as a component of non-interest income in the consolidated statements of income.

Note 4 - Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization, and is summarized as of December 31, 2020 and 2019, by major classification as follows:

	2020	2019
Computer equipment	$1,553,899	$1,589,506
Software	3,308,308	3,434,692
Furniture and equipment	3,445,387	4,061,142
Leasehold improvements	1,633,293	1,633,293
	9,940,887	10,718,633
Less accumulated depreciation	(8,107,353)	(7,077,352)
Total	$1,833,534	$3,641,281

Depreciation and amortization charged to office operations and office occupancy expenses was approximately $1,488,000 and $1,486,000 for the years ended December 31, 2020 and 2019, respectively.

Note 5 - Members' Shares and Certificates

Members' shares and certificates are summarized as follows:

	2020	2019
Daily shares	$5,805,016,869	$2,864,645,014
Share certificates	920,315,184	369,324,500
NPC shares	—	2
Total	$6,725,332,053	$3,233,969,516

The aggregate balance of members' certificates in denominations that meet or exceed $250,000 was approximately $866,827,000 as of December 31, 2020.

Note 5 - Members' Shares and Certificates (Continued)

Scheduled maturities of certificates as of December 31, 2020 are as follows:

	2020
Within one year	$760,725,189
1 to 2 years	100,028,995
2 to 3 years	49,296,000
3 to 4 years	4,750,000
4 to 5 years	5,515,000
Total	$920,315,184

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 was $4,000,000 and $0 outstanding on this line of credit for the years ending December 31, 2020 and 2019, respectively.

The Credit Union has approximately $158,889,000 of securities held as collateral at the FHLBC as of December 31, 2020.

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, 2020 and 2019.

Various Financial Institutions

The Credit Union has established unsecured federal funds agreements with various financial institutions. The agreements provide for borrowings up to $120,000,000 and $70,000,000 in aggregate, with interest payable at a rate determined by the financial institutions for the years ended December 31, 2020 and 2019, respectively. There were no borrowed funds outstanding under these agreements as of December 31, 2020 and 2019.

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 \$674,000 and \$548,000 for the years ended December 31, 2020 and 2019, 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 \$609,000 and \$288,000 for the years ended December 31, 2020 and 2019, 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, 2020:

Year ending December 31,	Amount
2021	$1,677,000
2022	1,407,000
2023	1,223,000
2024	1,180,000
2025	827,000
Thereafter	1,054,000
	$7,368,000

Rental expense under operating leases was approximately $1,614,000 and $1,381,000 for the years ended December 31, 2020 and 2019, 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 commenced 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

<u>Off-Balance-Sheet Risk</u>

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, 2020, the members' unused lines of credit approximated $10,089,360,000. The Credit Union also had letters of credit outstanding with a member in the amount of $60,051,000 as of December 31, 2020. 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

Note 10 - Regulatory Capital (Continued)

The Credit Union's retained earnings and other equity ratio is 2.27% and 3.23% as of December 31, 2020 and 2019, respectively. By regulation, since the Credit Union's ratio as of December 31, 2020 falls below the regulatory minimum of 2.50%, it is required to exclude an amount of PCC equivalent to the PCC excess over retained earnings less two percent of moving daily average net assets from its Tier 1 Capital calculation. Based on this calculation, no PCC was excluded from Tier 1 Capital for the year ended December 31, 2020 as two percent of moving daily average net assets was greater than the excess of PCC over retained earnings. The ratio was higher than the regulatory minimum for the year ending December 31, 2019 also allowing the Credit Union to include all PCC as regulatory Tier 1 capital.

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 includes 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, 2020 and 2019, are as follows:

	2020	2019
Total regulatory retained earnings	$129,445,866	$114,344,024
Perpetual contributed capital	244,522,326	241,899,646
Investments in unconsolidated CUSOs	(8,723,786)	—
Tier 1 capital before PCC	$365,244,406	$350,235,712
PCC exclusion – effective December	—	—
Tier 1 capital	$365,244,406	$350,235,712
Tier 1 capital	$365,244,406	$350,235,712
Non-perpetual capital	—	2
Allowance for 1oan 1osses	372,329	269,187
PCC excluded from Tier 1 capital	—	—
45% of unrealized net gain on equity	—	—
Total capital	$365,616,735	$350,504,901
Moving daily average net assets	$5,694,355,937	$3,539,691,077
Monthly moving average net risk-weighted assets	$1,692,886,836	$1,375,464,816

Capital ratio	2020	2019	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio (1)	6.41%	9.89%	4.00%	5.00%
Tier 1 risk based	21.58%	25.46%	4.00%	6.00%
Total risk based	21.60%	25.48%	8.00%	10.00%
Retained earnings	2.27%	3.23%	N/A	N/A

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

Note 10 - Regulatory Capital (Continued)

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

As of December 31, 2020 and 2019, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

Note 11 - Derivatives

Derivatives as of December 31, 2020 and 2019 are comprised of twenty-six and three interest rate swap agreements, respectively. Additionally, for the year ended December 31, 2019 the Credit Union derivatives included four interest rate floor agreements. The interest rate floor agreements were sold in May 2020 for a gain of approximately $9,374,000 which was recorded to AOCI and is being accreted to interest income over the remaining term of the floor agreements or through April 2022.

Interest rate derivative assets are included in prepaid and other assets in the consolidated statements of financial condition. Interest rate derivative liabilities are included in accounts payable and other accrued liabilities in the consolidated statements of financial condition.

The following table summarizes the fair value of interest rate swaps and floors on a gross basis as of December 31.

	As of December 31, 2020		
		Fair Value	
	Notional/ Contract Amount	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes			
Derivatives designated as hedging instruments			
Interest rate contracts:			
Swaps – fair value – pay fixed/receive floating	$525,412,000	$3,105,571	($4,396,930)
Floors – cash flow	—	—	—
Total risk management purposes	**$525,412,000**	**$3,105,571**	**($4,396,930)**

Note 11 - Derivatives (Continued)

	As of December 31, 2019		
		Fair Value	
	Notional/ Contract Amount	Gross Derivative Assets	Gross Derivative Liabilities
Risk management purposes			
Derivatives designated as hedging instruments			
Interest rate contracts:			
Swaps – fair value – pay fixed/receive floating	$35,000,000	$67,573	($1,602,143)
Floors – cash flow	400,000,000	1,693,499	—
Total risk management purposes	**$435,000,000**	**$1,761,072**	**($1,602,143)**

The Credit Union's strategy with the swaps is to hedge the interest rate risk associated with specific fixed-rate member loans and available for sale securities. 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 interest rate derivatives purchased prior to 2020. There were net losses realized on these derivatives of approximately $24,000 and $73,000 for the years ended December 31, 2020 and 2019, respectively. New derivatives transacted in the current year have been designated as fair value hedges and effectiveness is being measured using the short cut method (see Note 1) which assumes perfect effectiveness. Total gains recognized on these swaps were approximately $2,681,000 and are included in Interest Income on the consolidated statements of income along with the offsetting $2,681,000 net loss on the underlying member loans and investment security assets.

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. As of December 31, 2020, the Credit Union had cash collateral requirements with PNC Bank for approximately $1,490,000 and JP Morgan Chase had cash collateral requirements with the Credit Union for approximately $4,620,000.

Note 12 - Reverse Repurchase Agreements

As of December 31, 2020, the Credit Union had one reverse repurchase agreement which was for $50,000,000 and set to mature on January 15, 2021. The fair value of the collateralized securities was approximately $52,346,000 as of December 31, 2020. As of December 31, 2020, the Credit Union had cash collateral requirements with JPM for approximately $298,000. 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.

Note 13 - Fair Value Measurements

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

Level 1

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

Level 2

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

Note 13 - Fair Value Measurements (Continued)

Level 3

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

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

Certain assets and liabilities may be required to be measured at fair value on a non-recurring basis. These non-recurring fair value measurements usually result from the application of lower of cost or market accounting or the write-down of individual assets due to impairment. There were no items required to be measured on a non-recurring basis as of December 31, 2020 or 2019.

Recurring Basis

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

Available for Sale Securities

Asset-backed securities, Collateralized-mortgage obligations, Agency Securities and Corporate Notes - These securities are classified as Level 2 in the fair value hierarchy and are valued based on quoted market prices on similar assets in the marketplace and the vintage of the underlying collateral.

Other Assets/Liabilities

Hedged Fixed-Rate Loans – These loans are classified as Level 2 in the fair value hierarchy and are valued based on LIBOR curve.

Interest Rate Swaps – These pay fixed, receive variable interest rate swaps are classified as Level 2 in the fair value hierarchy and are valued based on the 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.

Note 13 - Fair Value Measurements (Continued)

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, 2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities available-for-sale:				
Asset-backed securities	$—	$1,629,819,665	$—	$1,629,819,665
Collateralized mortgage obligations	—	1,120,937,723	—	1,120,937,723
Corporate notes	—	14,041,140	—	14,041,140
Agency securities	—	97,205,018	—	97,205,018
Hedged fixed-rate securities	—	439,634,387	—	439,634,387
Total investment securities available-for-sale	—	3,301,637,933	—	3,301,637,933
Hedged fixed-rate loans	—	86,830,906	—	86,830,906
Derivative Assets:				
Interest rate contracts		3,105,571	—	3,105,571
Total assets at fair value	$—	**$3,391,574,410**	$—	**$3,391,574,410**
Derivative Liabilities:				
Interest rate contracts	—	4,396,930	—	4,396,930
Total liabilities at fair value	**$—**	**$4,396,930**	**$—**	**$4,396,930**

	Assets at Fair Value as of December 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities available-for-sale:				
Asset-backed securities	$—	$1,514,318,169	$—	$1,514,318,169
Collateralized mortgage obligations	—	532,220,062	—	532,220,062
Corporate notes	—	5,005,200	—	5,005,200
Agency securities	—	2,377,698	—	2,377,698
Hedged fixed-rate securities	—	—	—	—
Total investment securities available-for-sale	—	2,053,921,129	—	2,053,921,129
Hedged fixed-rate loans	—	36,320,767	—	36,320,767
Derivative Assets:				
Interest rate contracts	—	1,761,071	—	1,761,071
Total assets at fair value	**$—**	**$2,092,002,967**	**$—**	**$2,092,002,967**
Derivative Liabilities:				
Interest rate contracts	—	1,602,143	—	1,602,143
Total liabilities at fair value	**$—**	**$1,602,143**	**$—**	**$1,602,143**

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, 2020 and 2019:

	Unrealized (Losses)/Gains on Available-for-Sale Securities	Unrealized (Losses)/Gains on Derivatives	Total
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
Other comprehensive gains/(losses) before reclassifications	15,218,929	8,364,178	23,583,107
Amounts reclassified to consolidated income statement	—	(3,095,855)	(3,095,855)
Balance, December 31, 2020	$18,059,317	$6,278,435	$24,337,752

* * * End of Notes * * *

DoerenMayhew
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Independent Auditor's Report

February 26, 2021

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

Report on Internal Control Over Financial Reporting

We have audited Alloya Corporate Federal Credit Union's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013) 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 their Management's Report on Annual Report.

Auditor's Responsibility

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

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 effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control – Integrated Framework (2013), 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 26, 2021, expressed an unmodified opinion.

Doeren Mayhew

Doeren Mayhew
Troy, MI

alloya®
Corporate Federal Credit Union

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Alloya Corporate Federal Credit Union
Management Report on Annual Report
2020

We, the undersigned, certify that:

1. We have reviewed the annual report (2020 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 andhave:

    a. Designed such internal controls over financial reporting, or caused such internal controls to be designed under our supervision, to provide reasonable assurance regardingthe 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 2020, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2020.

Date: February 26, 2021

Todd M Adams

Todd M. Adams, CEO

Tracy J. Lafferty

Tracy Lafferty, CFO