alloya®

Corporate Federal Credit Union

2023 Audited Financials

Report of the Chairman

I am pleased to report that during 2023, Alloya continued to fulfill its mission to support credit union success while remaining a top-tier employer of choice, earning record member survey scores and exceeding financial goals. Credit unions, through their Alloya membership, represent an outstanding example of the *Power of Cooperation* and we proved once again that great results can be achieved when working together.

After two years of construction and development, Alloya launched Premier Core on March 31, 2023. While this technology is less visible to most of Alloya's credit union members, it serves as the core data processing engine supporting our membership. Who else has built and installed their own core data processing system? Through Alloya, credit unions can now make this claim.

Alloya remains a payment leader supporting the credit union membership. During 2023, the Federal Reserve launched its instant payment system, the FedNow® Service, which represents a major update to the United States payment infrastructure. Through Alloya, credit unions will be able to connect efficiently and securely to the FedNow Service and, just as importantly, will be able to direct the transactions to post to their primary settlement account that is further supported by their advised line of credit.

During 2023, Alloya also invested in three companies and launched Member Solutions as a new set of capabilities to be shared with our credit union membership. While Alloya primarily focuses on services that are designed to simplify a credit union's back-office life, Member Solutions are services that can help credit unions better connect with, and serve, their membership.

While significantly advancing capabilities during 2023, Alloya also remained safe, secure and relevant to our membership. Alloya stayed highly liquid throughout the year and continued the tradition of funding every member loan request.

From a financial perspective, Alloya continued to be well positioned for higher short-term interest rates and realized net income of $91.2 million during 2023. Alloya was able to realize this net income while also increasing dividends on members' shares and certificates from $52.3 million in 2022 to $120.4 million in 2023 (an increase of 130%). Last, but certainly not least, Alloya remained compliant with all applicable rules and regulations.

As we embrace this new year and look forward to the future, Alloya remains exceptionally well positioned to support credit union success for many years to come. With the ongoing support of the credit union membership, our collective future continues to look bright.

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

David B. Suvall
March 1, 2024

Alloya Corporate Federal Credit Union

Report of the CEO

Alloya's mission is to support credit union success while advancing three key strategic goals: People and Culture, Member Service and Financial Performance/Compliance. Alloya was launched as a newly formed corporate credit union in 2011 and I am pleased to report that 2023 represents the best overall performance in our twelve-year history.

People and Culture

Alloya remains a top-tier employer of choice and our professionals remain engaged, believe in our mission to support credit union success, and feel valued for the work they perform. To measure engagement, Alloya uses the Gallup Q12 Employee Engagement Survey and ranked among the top 12% of U.S. organizations for 2023. Alloya's team of professionals view themselves as another department of the credit unions they serve and are inspired by the work that credit unions do every day to support their communities.

Member Service

We continue to believe that credit unions want access to efficient technology ***and*** to be able to talk to an Alloya professional, not a machine, when they have a question. Alloya continues to maintain a high-performing member service team, not a phone tree managed by bots, that will answer your call in an average of under four seconds. By offering leading Premier View technology supported by outstanding member service, Alloya earned a record member survey score of 4.91 out of 5.0 and a Net Promoter Score of 89 for 2023!

Alloya also significantly advanced our technology with the successful launch of our proprietary core system, Premier Core, on March 31, 2023. The conversion to Premier Core was an "all hands on deck," strategically vital project that was executed exceptionally well. By owning, controlling and developing our core data processing system, Alloya is now better positioned to support the credit union membership well into the future.

Financial Performance and Compliance

Alloya's net income was $91.2 million for the year ended December 31, 2023 and included a gain of $18.2 million on interests in the U.S. Central Asset Management Estate. Excluding this gain, core net income was $73.0 million. Please note that non-interest income was higher by approximately $3 million and operating expenses were higher by approximately $5 million from the acquisition and consolidation of a wholly owned CUSO during the year. Operating expenses were also higher by an additional $6 million because of non-recurring research and development expenses for key future initiatives.

Alloya's balance sheet remained very well positioned for the current interest rate environment. Other highlights include total assets of $6.2 billion, cash of $3.5 billion and member shares of $3.3 billion. Total capital was $598.3 million, including $362.5 million of retained earnings. Alloya's capital leverage ratio of 10.7% exceeded the regulatory well-capitalized requirement of 5.0%.

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

Todd M. Adams
March 1, 2024

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

(With Independent Auditor's Report Thereon)

ALLOYA CORPORATE FEDERAL CREDIT UNION

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DoerenMayhew

305 West Big Beaver Road, Suite 200
Troy, Michigan 48084
248.244.3000 | doeren.com

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of Alloya Corporate Federal Credit Union, which comprise the consolidated statement of financial condition as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alloya Corporate Federal Credit Union as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Alloya Corporate Federal Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Alloya Corporate Federal Credit Union's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Alloya Corporate Federal Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Internal Control Over Financial Reporting

We also have audited, in accordance with auditing standards generally accepted in the United States of America, Alloya Corporate Federal Credit Union's internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control— Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 29, 2024 expressed an unmodified opinion.

Doeren Mayhew

Troy, Michigan
February 29, 2024

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2023 AND 2022

Assets	**2023**	**2022**
Cash and cash equivalents	$3,548,194,808	$2,592,177,887
Investments:		
Available-for-sale securities (Note 2)	1,962,858,738	2,745,067,342
Other investments (Note 3)	116,458,109	149,685,395
Loans, net of allowance for credit losses of $2,471,515 as of December 31, 2023 ($928,796 as of December 31, 2022)	474,130,862	707,068,895
Collateral assignment split dollar (CASD) (Note 7)	11,073,927	11,129,690
Goodwill	10,719,470	4,702,651
Intangibles, net of amortization	14,507,484	1,467,824
Accrued income and other assets	34,756,274	31,186,092
Total assets	$6,172,699,672	$6,242,485,776
Liabilities and Members' Equity		
Liabilities:		
Members' shares (Note 5)	$3,256,519,877	$2,930,005,104
Members' certificates (Note 5)	1,057,078,246	1,611,060,250
Borrowings (Note 6)	1,166,000,000	1,107,175,000
Counterparty Collateral (Note 10)	40,185,000	53,310,000
Accrued interest expense and other accrued liabilities	30,495,945	26,691,002
Deposits in collection	24,088,297	28,359,282
Total liabilities	5,574,367,365	5,756,600,638
Commitments and contingent liabilities		
Members' equity:		
Perpetual contributed capital	282,979,911	267,970,320
Retained earnings and other equity	362,542,640	291,088,486
Accumulated other comprehensive income (loss)	(47,190,244)	(73,173,668)
Total members' equity	598,332,307	485,885,138
Total liabilities and members' equity	$6,172,699,672	$6,242,485,776

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Interest income:		
Investments	$240,711,442	$93,906,943
Loans to members	36,012,914	20,163,400
Total interest income	276,724,356	114,070,343
Interest expense:		
Members' shares and certificates	120,362,081	52,276,983
Borrowings	63,661,614	13,617,533
Total interest expense	184,023,695	65,894,516
Net interest income	92,700,661	48,175,827
Provision for credit losses	1,192,091	766,585
Net interest income after provision	91,508,570	47,409,242
Non-interest income:		
Payment and technology fee income, net of expense	17,200,284	15,959,774
Capital markets fee income, net of expense	15,574,034	12,788,936
Member solutions fee income, net of expense	2,946,704	—
Other income (loss)	53,986	(367,941)
Gain on USC Estate Settlement (Note 13)	18,215,644	89,418,284
Total non-interest income	53,990,652	117,799,053
Non-interest expense:		
Compensation and benefits	33,264,890	28,662,751
Professional and outside services	5,317,514	4,194,049
Training, travel and communications	4,250,136	3,391,628
Office operations	1,604,854	1,242,227
Office occupancy	1,678,422	1,720,816
Miscellaneous	2,189,407	1,636,983
Research and development	6,000,000	—
Total non-interest expenses	54,305,223	40,848,454
Net income	$91,193,999	$124,359,841

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Net income	$91,193,999	$124,359,841
Other comprehensive income:		
Net unrealized holding gains (losses) on derivatives designated as cash flow hedges	—	—
Net unrealized holding gains (losses) on investments classified as available-for-sale	25,983,424	(76,660,440)
Reclassification adjustments for gains (losses) included in net income	—	(1,233,849)
Other comprehensive gain (loss)	25,983,424	(77,894,289)
Comprehensive income	$117,177,423	$46,465,552

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

	Perpetual Contributed Capital	Retained Earnings and Other Equity	Accumulated Other Comprehensive Income/(Loss)	Total
Balance, December 31, 2021	$253,923,277	$209,429,549	$4,720,621	$468,073,447
Net income	—	124,359,841	—	124,359,841
Perpetual contributed capital acquired from members	14,047,043	—	—	14,047,043
Dividends on perpetual contributed capital	—	(5,846,201)	—	(5,846,201)
Special dividend on perpetual contributed capital (Note 13)	—	(36,854,703)	—	(36,854,703)
Other comprehensive loss	—	—	(77,894,289)	(77,894,289)
Balance, December 31, 2022	$267,970,320	$291,088,486	($73,173,668)	$485,885,138
Cumulative effect of change in accounting principle (Note 1)	—	(1,246,134)	—	(1,246,134)
Restated balance January 01, 2023	267,970,320	289,842,352	(73,173,668)	484,639,004
Net income	—	91,193,999	—	91,193,999
Perpetual contributed capital acquired from members	15,009,591	—	—	15,009,591
Dividends on perpetual contributed capital	—	(6,209,336)	—	(6,209,336)
Special dividend on perpetual contributed capital (Note 13)	—	(12,284,375)	—	(12,284,375)
Other comprehensive income	—	—	25,983,424	25,983,424
Balance, December 31, 2023	$282,979,911	$362,542,640	($47,190,244)	$598,332,307

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash flows from operating activities:		
Net income	$91,193,999	$124,359,841
Adjustments:		
(Gain) Loss on financial instruments	(21,359)	24,580
Net amortization/accretion of premiums and discounts on investment securities	1,118,250	2,396,098
Amortization of premiums on loan participations	400,561	249,723
Accretion of gain on teminated interest rate swaps	(1,219,361)	(241,916)
Accretion of gain on sale of interest rate floors	—	(1,233,848)
Amortization of intangible assets	960,340	—
Change in cash surrender value of CASD	55,763	172,406
Change in cash surrender value of GICs	(1,277,307)	—
Provision for credit losses	1,192,091	766,585
Changes in operating assets and liabilities:		
Decrease in accrued income and other assets	(1,291,273)	(11,687,297)
Increase in accrued interest expense and other accrued liabilities	1,451,160	47,976,506
Total adjustments	1,368,865	38,422,837
Net cash provided from operating activities	92,562,864	162,782,678

See accompanying notes to the consolidated financial statements.

ALLOYA CORPORATE FEDERAL CREDIT UNION

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

Cash Flows (Continued)

	2023	2022
Cash flows from investing activities:		
Acquisition of QCash Financial, LLC	($20,700,188)	$—
Proceeds from maturities and repayments of available-for-sale investments	995,056,397	1,858,511,549
Purchase of available-for-sale investments	(174,237,327)	(1,177,261,403)
Gain on sale of derivatives	—	5,197,359
Net change in loans to members	244,239,883	(363,504,319)
Net change in loan participations	(11,961,960)	(80,512,524)
Purchase of guaranteed investment contracts	(20,000,000)	(10,055,000)
Proceeds from maturities of GICs	—	10,000,000
Net change in repurchase agreements	—	68,501,340
Additions to paid in portion CLF Capital Stock	—	(4,272,667)
Proceeds from return/refunds of CLF Capital Stock	—	126,346,621
Increase (decrease) in counterparty collateral	(13,125,000)	38,284,775
Net other (increase) decrease in other investments	40,579,588	(82,419,559)
Net cash provided by investing activities	1,039,851,393	388,816,172
Cash flows from financing activities:		
Net change in members' shares and certificates	(227,467,231)	(1,999,800,502)
Change in deposits in collection	(4,270,985)	15,431,747
Net change in borrowings	161,000,000	1,000,000,000
Net change in reverse repurchase agreements	(102,175,000)	102,175,000
Perpetual contributed capital raised	15,009,591	14,047,043
Dividends on perpetual contributed capital	(18,493,711)	(42,700,904)
Net cash used in financing activities	(176,397,336)	(910,847,616)
Net change in cash and cash equivalents	956,016,921	(359,248,767)
Cash and cash equivalents, beginning of year	2,592,177,887	2,951,426,654
Cash and cash equivalents, end of year	$3,548,194,808	$2,592,177,887

Supplemental Cash Flows Disclosure

Interest paid	$183,867,293	$60,067,649

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, payment, investment, and member solutions services to credit unions and their affiliated organizations through a national field of membership. The Credit Union is primarily a "business to business" provider and is used by its members 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 is an efficient and secure solution for members 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 members 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, an unrelated entity. 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.

QCash Financial, LLC (QCash) is a wholly-owned subsidiary acquired by the Credit Union on March 31, 2023. QCash offers a relationship-based lending platform that empowers credit unions to improve the financial well-being of their communities by providing small-dollar loans to their members in sixty seconds without the use of a credit score. This product falls under the Credit Union's member solutions product offerings. See section on Business Combination in Note 1 for further details on the acquisition.

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. 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 subsidiaries, AS and QCash. 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 other 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 $2,929,538,000 and $1,845,856,000 as of December 31, 2023 and 2022, 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

Investment securities 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.

The Credit Union evaluates its available-for-sale investment securities portfolio on a quarterly basis for indicators of impairment. The Credit Union assesses whether an impairment has occurred when the fair value of a debt security is less than the amortized cost at the balance sheet date. Management reviews the amount of unrealized loss, the credit rating history, market trends of similar security classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially be impaired. For those debt securities that The Credit Union intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is considered to be impaired and is recognized in provision for credit losses. For those debt securities that The Credit Union does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the impairment, if any, is recognized through an allowance in provision for credit losses while the noncredit portion is recognized in OCI. In determining the credit portion, The Credit Union uses a discounted cash flow analysis, which includes evaluating the timing and amount of the expected cash flows. Non-credit-related impairment results from other factors, including increased liquidity spreads and higher interest rates.

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 non-performance 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, available-for-sale investment securities and member certificates attributable to interest rate volatility.

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 10). 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. Accounting Standards Codification (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 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 earnings. The Credit Union includes the gain or loss on the hedged items (i.e., fixed-rate investments, loans or member certificates) in the same line item (interest income or interest expense) 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. The gain or loss at the time of discontinuance is amortized to interest income over the remaining term of the derivative instrument.

<u>Other Investments</u>

FHLB Capital Stock is carried at cost and its disposition is restricted. Guaranteed investment contracts or GICs (funding agreements) are carried at cash surrender value. Refer to Note 3 for further details regarding these investments.

Note 1 - Significant Accounting Policies (Continued)

Other Investments (Continued)

The Credit Union has investments in various Credit Union Service Organizations (CUSOs). The Credit Union uses the equity method of accounting for these investments when it is deemed that the Credit Union holds significant influence over the investee, which is assessed based on ownership percentage and other qualitative factors. For CUSO Investments not meeting these requirements and are without readily determinable fair value, the Credit Union has elected to carry at cost minus impairment, if any.

Loans and Allowance for Credit Losses on Loans

Loans include loans to members, loan participations held for investment, net of allowance and natural person credit union subordinated debt. Loans to members and subordinated debt are stated at the amount of unpaid principal. Interest is calculated using the simple-interest method on principal amounts outstanding and is recognized over the term of the loan or subordinated debt. 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 held for investment are initially recorded at cost as of the settlement date. An allowance for credit losses on loans is established at purchase for these loan participations and the carrying value is reflected net of the allowance. Any difference between the market price and par value at the settlement date for loan participations 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, respectively.

Refer to Note 4 for credit quality indicators used by the Credit Union as part of its ongoing monitoring of the credit quality of the loan portfolio.

Allowance for Credit Losses on Loans

On January 1, 2023, the Credit Union adopted ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments", which resulted in a significant change to the methodology used to estimate the allowance. See section below on Recently Adopted Accounting Pronouncements for details on the adoption and impact of this new pronouncement on the Credit Union's financial statements.

Note 1 - Significant Accounting Policies (Continued)

Loans and Allowance for Credit Losses on Loans (Continued)

Allowance for Credit Losses on Loans (Continued)

Under this new pronouncement, the allowance for credit losses on loans is deducted from the amortized cost basis of a group of financial assets so that the balance sheet reflects the net amount the Credit Union expects to collect. Subsequent changes (favorable and unfavorable) in expected credit losses are recognized immediately in net income as a credit loss expense or a reversal of credit loss expense. The methodologies used by the Credit Union to estimate the allowance differs based on characteristics of loans.

Member Loans/Subordinated Debt - The Credit Union's loan portfolio consists of loans made to member credit unions, credit union service organizations and other affiliated organizations, and subordinated debt purchases from natural person credit unions. The Credit Union has divided the portfolio into three classes of loans (settlement loans, fixed-rate term loans, and subordinated debt) 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 estimate the allowance for each class of member loans:

All loans are evaluated on a loan-by-loan basis. Settlement loans and fixed-rate term 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. Subordinated debt represents unsecured loans made to natural person credit unions with an acceptable risk profile. The Credit Union takes a dollar for dollar capital deduction, per regulation, for its subordinated debt.

Loan Participations - Loan participations held for investment, secured by vehicles or unsecured loans, were purchased without recourse and the originating financial institution performs all loan servicing functions on these loans. The Credit Union records an allowance for credit losses on loans equal to the expected credit losses attributed to the current portfolio. The following methodology is used by management to estimate expected credit losses on the loan participation portfolio:

Note 1 - Significant Accounting Policies (Continued)

Loan Participations (Continued)

Loan participations are segmented by loan pool and/or originator. The Credit Union estimates the allowance using two methodologies – Weighted-Average-Remaining-Maturity (WARM) Method and the Probability of Default (PD) Method. The allowance for each loan participation pool is based on the higher of the two loss estimates. The WARM method establishes an annualized loss rate based on historical data and forecasted qualitative and economic factors multiplied by the assets' remaining weighted-average-life to arrive at a lifetime loss estimate. The PD method estimates losses at the loan level based on three components - probability-of-default, loss-given-default and exposure at default and incorporates future economic conditions into its estimates.

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, 2022.

Certain loans for which repayment is expected to be provided substantially through the sale of the loan collateral are considered to be collateral-dependent. If a loan is determined to be collateral-dependent, or meets the criteria to apply the collateral-dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate. Auto and consumer collateral-dependent loans were deemed insignificant and intentionally omitted for disclosure purposes.

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. Loans are classified as "non-accrual" loans when the loans are deemed to be impaired because the Credit Union no longer expects to collect all amounts due according to the contractual terms of the loan agreement. The accrual of interest is ceased for loans placed on non-accrual status.

Goodwill and Other Intangible Assets

Goodwill and intangible assets acquired in a purchase business combination that are determined to have indefinite useful lives 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.

Note 1 - Significant Accounting Policies (Continued)

Goodwill and Other Intangible Assets (Continued)

The Credit Union has selected December 31 as the date to perform the annual impairment test, and any impairment is recognized in the period identified. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite useful life in the Credit Union's consolidated statements of financial condition. Based on the annual impairment tests performed as of December 31, 2023 and 2022, there was no impairment of goodwill. Other intangible assets consist primarily of customer relationships and trade name intangibles acquired as part of QCash Financial, LLC business. The customer relationship intangible is being amortized straight line over its estimated useful life of fifteen years. The expected amortization expense is approximately $1.1 million for the years ended December 31, 2024 and 2025, $840,000 for the year ended December 31, 2026 and $693,000 for the years ended December 31, 2027 and 2028. The trade name intangible has an indefinite useful life.

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.

Perpetual Contributed Capital (PCC)

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

Note 1 - Significant Accounting Policies (Continued)

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

Payment and technology fee income, net of expense: The Credit Union earns fee income from its members for transaction-based services in the form of both fixed monthly and transaction fees. Transaction-based services include services such as automated clearing house (ACH) and share-draft processing, coin and currency vault and delivery services, and wires. Transaction 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. Monthly fixed fees, charged for access to these services, are recognized in the month the services were provided.

Capital markets fee income, net of expense:

- The Credit Union earns servicing fees from its loan participation marketplace. Loan participation fee income is recognized when remittances are transmitted from the loan participation seller to the buyer through the marketplace.

- The Credit Union provides security safekeeping services to its members. Transaction-based income from security safekeeping is recognized at the time the transaction is executed. Monthly fixed fees are charged for access to safekeeping services and these fees are recognized in the month the services were provided.

- Agent income from EBA Program: The Credit Union, as an agent, earns income based on a spread differential as a function of the balances maintained at the FRB for the participant. Agent income is recognized in the month of activity.

- AS commissions income: Income received through services provided by AS consists of commissions. Commission income for investment trades is recognized in the month of trade activity. Commission income for the time deposit sales through the SimpliCD program is recognized over the life of the corresponding time deposit.

Member solutions fee income, net of expense: Income received from member solutions, comprised of automated lending solutions provided by QCash, consists primarily of fixed monthly service and support fees and per loan funded fees. Loan funded fees are recognized at the time loans are funded, as that is the point in time the Credit Union fulfills the member's request. Monthly fixed service and support fees are recognized in the month the services were provided.

Note 1 - Significant Accounting Policies (Continued)

Research and Development Expense

In 2023, the Credit Union elected to expend $6,000,000 in research and development costs related to identifying and/or building a faster payment solution. The expenses were largely investments in start-up entities with operational losses, thus they were not capitalized. Although it is possible that these efforts will provide future revenue streams or yield operational efficiencies, there is no guarantee that the research will lead to a viable solution. Therefore, the Credit Union has decided to expense these costs as incurred.

Business Combination

On March 31, 2023, the Credit Union entered into a purchase agreement to acquire QCash Financial, LLC for a total purchase price of $22,950,000 which is comprised of $20,700,188 in net cash consideration paid and $1,950,000 in an earnout liability. There was $299,812 of cash assumed in the transaction.

The Credit Union accounted for this acquisition under the purchase price method of accounting. The fair value of the assets acquired and liabilities assumed were based on estimates by an unaffiliated third party that specializes in business acquisition valuations. The following is a condensed summary of the assets acquired:

Current Assets	$ 333,197
Goodwill	6,016,821
Other intangible assets	6,200,000
Customer intangible assets	10,400,000
Total Assets	$22,950,000

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) 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.

Note 1 - Significant Accounting Policies (Continued)

Reclassification

Certain amounts reported in the 2022 consolidated financial statements have been reclassified to conform with the 2023 presentation. Reclassification adjustments did not affect total members' equity or net income.

Recently Adopted Accounting Pronouncements

The Credit Union's January 1, 2023, adoption of ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments," resulted in a significant change to the methodology for estimating the allowance. ASU No. 2016-13 replaced the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables. It also applies to off-balance sheet exposures. The Credit Union adopted ASC Topic 326 using the modified retrospective method for all financial assets in scope of the standard. Upon adoption, the Credit Union recorded an increase to the allowance for credit losses of $1,246,000 and a corresponding decrease to retained earnings of the same amount.

Subsequent Events

Management has evaluated subsequent events through February 29, 2024, the date the consolidated financial statements were available to be issued.

Note 2 - Investments – Available-for-Sale Securities

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

	As of December 31, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed	$493,302,818	$552,616	($7,805,813)	$486,049,621
Agency – mortgage backed	1,064,775,065	1,290,066	(39,332,939)	1,026,732,192
SBA	15,081,787	19,864	(31,160)	15,070,491
Corporate notes	27,101,642	33,273	(334,721)	26,800,194
Agency securities	427,720,441	79,509	(40,490,510)	387,309,440
U.S. Treasury	20,060,379	836,421	—	20,896,800
Total	$2,048,042,132	$2,811,749	($87,995,143)	1,962,858,738

	As of December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
Asset-backed	$1,149,054,627	$183,133	($24,623,148)	$1,124,614,612
Agency – mortgage backed	1,207,652,562	375,164	(47,316,353)	1,160,711,373
SBA	23,897,651	43,157	(14,849)	23,925,959
Corporate notes	57,313,429	—	(953,867)	56,359,562
Agency securities	430,893,965	157,750	(51,595,879)	379,455,836
Total	$2,868,812,234	$759,204	($124,504,096)	$2,745,067,342

Available-for-sale securities as of December 31, 2023 includes approximately $376,361,000 (book value) of hedged assets. Losses relating to the hedged risk on these investments of approximately $37,993,000 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 $47,190,000.

Note 2 - Investments – Available-for-Sale Securities (Continued)

Available-for-sale securities as of December 31, 2022 includes approximately $377,760,000 (book value) of hedged assets. Losses relating to the hedged risk on these investments of approximately $50,571,000 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 $73,174,000.

The amortized cost and estimated fair value of investments as of December 31, 2023, 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	$12,943,327	$12,976,600
1 to 5 years	349,505,545	328,328,927
Over 5 years	112,433,591	93,700,907
Asset-backed securities	493,302,818	486,049,621
Agency – mortgage backed obligations	1,064,775,065	1,026,732,192
SBA	15,081,787	15,070,491
Total	$2,048,042,133	$1,962,858,738

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.

Note 2 - Investments – Available-for-Sale Securities (Continued)

	As of December 31, 2023		
	Fair Value	Capital Based Limit	Asset Based Limit
By Security Type:			
Auto loan/lease asset-backed securities	$206,188,121	$3,096,483,000	$1,543,175,000
Credit card asset-backed securities	96,158,873	3,096,483,000	1,543,175,000
Agency - commercial mortgage-backed	426,489,718	1,857,890,000	925,905,000
FFELP student loan asset-backed	105,187,722	6,192,966,000	3,086,350,000
Agency - residential mortgage-backed	600,242,474	6,192,966,000	3,086,350,000
Other asset-backed securities	78,514,906	3,096,483,000	1,543,175,000
Corporate debt obligations	26,800,194	6,192,966,000	3,086,350,000

	As of December 31, 2023	
	Fair Value	Regulatory Limit
By Issuer:		
MetLife (GICs)	$51,332,307	$154,824,000
VZMT	45,058,513	154,824,000
OCCU 2022-1A	34,835,506	154,824,000
CCCIT	30,701,581	309,648,000
AMXCA	30,367,600	309,648,000

Note 2 - Investments – Available-for-Sale 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, 2023					
	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	$12,226,996	($44,340)	$364,677,299	($7,761,473)	$376,904,295	($7,805,813)
Agency-mortgage backed	74,675,924	(828,916)	863,002,561	(38,504,023)	937,678,485	(39,332,939)
SBA	6,448,573	(12,794)	4,963,667	(18,366)	11,412,240	(31,160)
Corporate Notes	—	—	13,823,594	(334,721)	13,823,594	(334,721)
Agency	—	—	365,937,817	(40,490,510)	365,937,817	(40,490,510)
Total	$93,351,493	($886,050)	$1,612,404,938	($87,109,093)	$1,705,756,431	($87,995,143)

	As of December 31, 2022					
	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	$462,470,642	($6,783,781)	$582,194,767	($17,839,367)	$1,044,665,409	($24,623,148)
Agency-mortgage backed	694,031,400	(15,503,756)	382,384,211	(31,812,597)	1,076,415,611	(47,316,353)
SBA	8,756,403	(14,849)	—	—	8,756,403	(14,849)
Corporate Notes	56,359,562	(953,867)	—	—	56,359,562	(953,867)
Agency	—	—	361,079,436	(51,595,879)	361,079,436	(51,595,879)
Total	$1,221,618,007	($23,256,253)	$1,325,658,414	($101,247,843)	$2,547,276,421	($124,504,096)

Note 2 - Investments – Available-for-Sale Securities (Continued)

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.

The Credit Union evaluates each asset-backed security, Agency - mortgage backed, and corporate note on a quarterly basis for indicators of impairment due to credit factors. Management has the intent and ability to hold these securities to recovery of fair value, which may be maturity. There was no impairment related to credit loss factors recognized on asset-backed securities, collateralized-mortgage obligations or corporate notes during the years ended December 31, 2023 and 2022.

Note 3 - Other Investments

Other investments are comprised of the following as of December 31, 2023 and 2022:
`

	2023	2022
GICs (Funding Agreements)	51,332,307	30,055,000
CUSO Investments (Note 1)	8,447,431	10,605,434
Derivative Contracts (Note 10)	40,337,571	54,262,577
FHLB Capital Stock	3,896,800	45,100,000
Other	12,444,000	9,662,384
Total	116,458,109	$149,685,395

GIC (Funding Agreements)

The Credit Union entered into GICs which are agreements whereby an insurance company guarantees a fixed rate of return in exchange for holding a deposit from the investor for the contracted period of time. GICs are accounted for using cash surrender value. As of December 31, 2023 and 2022, the Credit Union had guaranteed interest contracts with total balances of $51,332,000 and $30,055,000, respectively.

Note 3 - Other Investments (Continued)

FHLB Capital Stock

As a member of the FHLB system the Credit Union is required to own a certain amount of stock based on its anticipated level of borrowings and other factors. Capital stock may be redeemed after a five-year written notice to the FHLB. The Credit Union held capital stock issued by FHLB of Chicago of approximately $3,897,000 and $45,100,000 as of December 31, 2023 and 2022, respectively. FHLB Capital stock is carried at cost and its disposition is restricted.

Note 4 - Loans

The composition of loans as of December 31, 2023 and 2022 is as follows:

	2023	2022
Member:		
Term loans	$179,488,487	$277,234,232
Settlement loans	174,408,426	331,013,236
	353,896,913	608,247,468
Subordinated Debt	20,250,000	8,750,000
Loan participations:		
Secured	102,000,071	89,951,522
Unsecured	455,393	1,048,701
	102,455,464	91,000,223
Less: allowance for credit losses	(2,471,515)	(928,796)
Loans, net of allowance	474,130,862	$707,068,895

Term loan balances include fair value losses of approximately $2,520,000 and $3,910,000 for the years ended December 31, 2023 and 2022, respectively. These losses are related to specific member fixed rate loans that are underlying assets for interest rate swap derivatives (see Note 10).

Note 4 - Loans (Continued)

Allowance for Credit Losses on Loans (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, 2023:

	Member Loans/Sub Debt	Loan Participation	Total
Allowance:			
Beginning allowance	$—	$928,796	$928,796
CECL adoption	—	1,246,134	1,246,134
Balance, restated	—	2,174,930	2,174,930
Charge-offs		(1,047,844)	(1,047,844)
Recoveries	—	152,338	152,338
Provision for credit losses	—	1,192,091	1,192,091
Ending allowance	$—	$2,471,515	$2,471,515

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, 2022:

	Member Loans/Sub Debt	Loan Participation	Total
Allowance:			
Beginning allowance	$—	$258,484	$258,484
Charge-offs	—	(98,788)	(98,788)
Recoveries	—	2,515	2,515
Provision for credit losses	—	766,585	766,585
Ending allowance	$—	$928,796	$928,796

The Credit Union had no impaired loans as of December 31, 2022 and no collateral dependent loans in 2023.

Note 4 - 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, 2023:

	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	$—	$—	$—	$—	$179,488,487	$179,488,487
Settlement	—	—	—	—	174,408,426	174,408,426
Subordinated Debt:	—	—	—	—	20,250,000	20,250,000
Loan participations:						
Vehicle	953,759	247,818	538,599	1,740,176	100,259,895	102,000,071
Unsecured	14,010	8,655	1,115	23,780	431,613	455,393
Total	$967,769	$256,473	$539,714	$1,763,956	$474,838,421	$476,602,377

Note 4 - Loans (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022:

	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	$—	$—	$—	$—	$277,234,232	$277,234,232
Settlement	—	—	—	—	331,013,236	331,013,236
					608,247,468	608,247,468
Subordinated Debt:	—	—	—	—	8,750,000	8,750,000
Loan participations:						
Vehicle	484,969	191,103	—	676,072	89,275,450	89,951,522
Unsecured	10,674	18,438	—	29,112	1,019,589	1,048,701
Total	$495,643	$209,541	$—	$705,184	$707,292,507	$707,997,691

The non-performing loans on which the accrual of interest has been discontinued or reduced or loans 90 days or more past due was insignificant for the year ended December 31, 2023 and there were none for the year ended December 31, 2022.

Credit Quality Indicators

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

Note 4 - Loans (Continued)

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

The Credit Union evaluates the credit quality of the consumer loan participation portfolio based primarily on the aging status of the loan and payment activity. Accordingly, non-accrual loans and loans modified under troubled debt restructurings that are past due in accordance with the loans’ original contractual terms are considered to be in a non-performing status for purposes of credit quality evaluation.

Members placed on the watch list have lines of credit of approximately $1,853,060,000 and $1,512,202,000 and outstanding loan balances of approximately $102,066,000 and $8,899,000 as of December 31, 2023 and 2022, respectively. Primarily due to a strong collateral position, the Credit Union has never experienced a loss on a loan to a member.

The Credit Union had net gains of approximately $425,000 on early prepayment of loans recognized for the year ended December 31, 2023. The Credit Union had no net gains on early prepayment of loans recognized for the year ended December 31, 2022. These gains are included as a component of capital markets fee income in the consolidated statements of income.

Note 5 - Members' Shares and Certificates

Members' shares and certificates are summarized as follows:

	2023	2022
Daily shares	$3,256,519,877	$2,930,005,104
Share certificates	1,057,078,246	1,611,060,250
Total	$4,313,598,123	$4,541,065,354

The aggregate balance of members' certificates in denominations that meet or exceed $250,000 was approximately $958,774,000 as of December 31, 2023.

Scheduled maturities of certificates as of December 31, 2023 are as follows:

	2023
Within one	$640,662,246
1 to 2 years	233,602,000
2 to 3 years	158,666,000
3 to 4 years	22,648,000
4 to 5 years	1,500,000
Total	$1,057,078,246

Note 6 - Lines of Credit

The Credit Union has access to secured, unsecured and repurchase lines of credit. The secured lines of credit require pledging of qualifying assets as collateral and total amount of the lines are determined based on the value of collateral as defined in the relevant agreements. There was $1,166,000,000 and $1,0005,000,000 outstanding as of December 31, 2023 and 2022, respectively on the secured lines of credit. The carrying amount, which is at fair value, of securities held as collateral related to the outstanding borrowing at December 31, 2023 was $1,222,192,000. The carrying amount of securities held as collateral on unused lines is $351,934,000 as of December 31, 2023.

Note 6 - Lines of Credit (Continued)

The Credit Union has established a repurchase line of credit agreement, secured by unencumbered, qualified investment securities. The interest rate charged varies depending on the collateral provided and the current market conditions. There was $0 and $102,175,000 borrowed funds outstanding under this agreement as of December 31, 2023 and 2022, respectively.

The Credit Union has established unsecured federal funds agreements with various financial institutions. The agreements provide for borrowings up to $120,000,000 in aggregate, with interest payable at a rate determined by the financial institutions for the years ended December 31, 2023 and 2022, respectively. There were no borrowed funds outstanding under these agreements as of December 31, 2023 and 2022.

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 $910,000 and $746,000 for the years ended December 31, 2023 and 2022, respectively. In addition, the Credit Union may elect to make a discretionary contribution to the Plan annually. This election requires approval by the Credit Union's Board of Directors. The Credit Union made discretionary contributions of approximately $838,000 and $695,000 for the years ended December 31, 2023 and 2022, 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.

Note 7 - Employee Benefit Plans (Continued)

In a 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 - 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 non-performance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon and are extended as advised lines of credit, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2023, the members' unused lines of credit approximated $13,870,807,000. The Credit Union also had letters of credit outstanding with members in the amount of $80,840,000 as of December 31, 2023. The Credit Union evaluates each members' creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the member.

Note 9 - Regulatory Capital

The Credit Union is subject to various regulatory capital requirements administered by the NCUA. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Failure to meet 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/or ceasing or limiting the Credit Union's ability to accept deposits.

Note 9 - Regulatory Capital (Continued)

The current 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 the 250 basis point threshold is not met, 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 6.33% and 4.57% as of December 31, 2023 and 2022, respectively. The ratio was higher than the regulatory minimum for the years ending December 31, 2023 and 2022 allowing the Credit Union to include all PCC as regulatory Tier 1 capital.

The NCUA has defined regulatory capital to include the following:

Tier 1 Capital:

- Retained earnings plus
- 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 or NCA maintained at another corporate credit union,
  - 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,
  - Subordinated debt instruments issued by natural person credit unions.

Note 9 - Regulatory Capital (Continued)

Tier 2 capital includes the following:

- Unamortized Non-perpetual 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. NCUA may disallow such inclusions in the calculation of Tier 2 capital if NCUA determines that the securities are not prudently valued.

Total capital includes Tier 1 and Tier 2 capital.

The Credit Union's capital amounts used in the calculations for regulatory capital as of December 31, 2023 and 2022, are as follows:

	2023	2022
Total regulatory retained earnings	$362,542,640	$291,088,486
Perpetual contributed capital	282,979,911	267,970,320
Investments in unconsolidated CUSOs	(8,447,431)	(10,605,434)
Subordinated Debt	(20,250,000)	(8,750,000)
Tier 1 capital before PCC	616,825,120	539,703,372
PCC exclusion – effective December 2017	—	—
Tier 1 capital	616,825,120	$539,703,372
Tier 1 capital	$616,825,120	$539,703,372
Non-perpetual capital	—	—
Allowance for 1oan 1osses	2,471,515	928,796
PCC excluded from Tier 1 capital	—	—
45% of unrealized net gain on equity	—	—
Total capital	$619,296,635	$540,632,168
Moving daily average net assets	$5,730,717,300	$6,369,679,132
Monthly moving average net risk-weighted assets (MMANRA)	$1,122,075,146	$2,034,444,759

Note 9 - Regulatory Capital (Continued)

Capital ratio	2023	2022	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Leverage ratio (1)	10.76%	8.47%	4.00%	5.00%
Tier 1 risk based (2)	54.97%	26.53%	4.00%	6.00%
Total risk based capital (3)	55.19%	26.57%	8.00%	10.00%
Retained earnings ratio (4)	6.33%	4.57%	N/A	N/A

Calculations (Capital/Denominator):

(1) = T1C/MDANA
(2) = T1C/MMANRA
(3) = TC/MMANRA
(4) = Retained earnings/MDANA

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, 2023 and 2022, the Credit Union met all capital requirements under Section 704.3 of the NCUA Regulations.

Note 10 - Derivatives

Derivatives as of December 31, 2023 and 2022 are comprised of twenty-three and twenty-two interest rate swap agreements, respectively. The Credit Union had interest rate floor agreements that were sold in May 2020 for a gain of approximately $9,374,000 which was recorded to AOCI and accreted to interest income over the remaining term of the floor agreements or through April 2022.

Interest rate derivative assets are included in Other Investments in the consolidated statements of financial condition. Interest rate derivative liabilities are included in accrued interest expense and other accrued liabilities in the consolidated statements of financial condition.

Note 10 - Derivatives (Continued)

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

	As of December 31, 2023		
		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	$425,132,000	$40,366,665	$—
Swaps – fair value – pay floating/receive fixed	55,000,000	—	(29,093)
Total risk management purposes	$480,132,000	$40,366,665	($29,093)

	As of December 31, 2022		
		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	$425,132,000	$54,262,577	$—
Total risk management purposes	$425,132,000	$54,262,577	$—

The Credit Union's strategy with the swaps is to hedge the interest rate risk associated with specific fixed-rate member loans, available for sale investment securities or member certificates. 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 gains realized on these derivatives of approximately $19,000 and $89,000 for the years ended December 31, 2023 and 2022, respectively. New derivatives transacted after January 1, 2021 have been designated as fair value hedges and effectiveness is being measured using the short cut method (see Note 1) which assumes perfect effectiveness.

Note 10 - Derivatives (Continued)

Total losses recognized on these swaps were approximately $13,328,000 and are included in Interest Income on the consolidated statements of income along with the offsetting $13,328,000 net gain on the underlying member loans, member certificates and investment security assets. The Credit Union discontinued hedge accounting for $45,000,000 in interest rate swaps for the year ended December 31, 2022. The gain as of the termination date of hedge accounting was $5,197,0000 and is being amortized over the remaining life of the agreements. As of December 31, 2023 the balance of the gain to be accreted to interest income is $3,850,000. There were no interest rate swap agreements terminated in 2023.

Derivative Collateral

The Credit Union has interest rate hedges (swaps) with JPM and PNC Bank. These hedges required the initial and ongoing position of margin collateral. As of December 31, 2023 and 2022, the Credit Union had cash collateral requirements with PNC Bank for approximately $16,280,000 and $22,150,000, respectively, and JPM for approximately $23,905,000 and $31,160,000, respectively.

Note 11 - 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.

Note 11 - Fair Value Measurements (Continued)

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 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, including 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 assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2023.

Recurring Basis

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

Available for Sale Securities

Asset-backed, Agency-mortgage backed, SBA, Agency 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. **U.S. Treasury** are classified as Level 1 in the fair value hierarchy and are valued based on quoted market prices on identical assets or liabilities that the Credit Union has the ability to access at the measurement date.

Note 11 - Fair Value Measurements (Continued)

Other Assets/Liabilities

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

Hedged Fixed-Rate Member Certificates – These certificates are classified as Level 2 in the fair value hierarchy and are valued based on SOFR 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 SOFR swap rate.

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

	Assets at Fair Value as of December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment securities available-for-sale:				
Asset-backed securities	$—	$486,049,621	$—	$486,049,621
Agency - mortgage backed	—	1,026,732,192	—	1,026,732,192
SBA	—	15,070,491	—	15,070,491
Corporate notes	—	26,800,194	—	26,800,194
Agency securities	—	55,170,589	—	55,170,589
U.S. Treasury Securities	20,896,800	—	—	20,896,800
Hedged fixed-rate securities	—	332,138,851	—	332,138,851
Total investment securities available-for-sale	20,896,800	1,941,961,938	—	1,962,858,738
Hedged fixed-rate loans	—	52,541,068	—	52,541,068
Derivative Assets:				
Interest rate contracts	—	40,366,665	—	40,366,665
Total assets at fair value	**$20,896,800**	**$2,034,869,671**	**$—**	**$2,055,766,471**
Derivative Liabilities:				
Hedged fixed-rate member certificates		54,970,907		54,970,907
Derivative Liabilities:				
Interest rate contracts		29,093		29,093
Total liabilities at fair value	**$—**	**$55,000,000**	**$—**	**$55,000,00**

Note 11 - Fair Value Measurements (Continued)

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Investment securities available-for-sale:				
Asset-backed securities	$—	$1,124,614,612	$—	$1,124,614,612
Agency - mortgage backed	—	1,160,711,373	—	1,160,711,373
SBA	—	23,925,959	—	23,925,959
Corporate notes	—	56,359,562	—	56,359,562
Agency securities	—	59,895,060	—	59,895,060
Hedged fixed-rate securities	—	319,560,776	—	319,560,776
Total investment securities available-for-sale	—	2,745,067,342	—	2,745,067,342
Hedged fixed-rate loans	—	51,203,881	—	51,203,881
Derivative Assets:				
Interest rate contracts	—	54,262,577	—	54,262,577
Total assets at fair value	**$—**	**$2,850,533,800**	**$—**	**$2,850,533,800**
Derivative Liabilities:				
Interest rate contracts				
Total liabilities at fair value	**$—**	**$—**	**$—**	**$—**

Note 12 - 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, 2023 and 2022:

	Unrealized (Losses)/Gains on Available-for-Sale Securities	Unrealized (Losses)/Gains on Derivatives	Total
Balance, December 31, 2021	3,486,772	1,233,849	4,720,621
Other comprehensive gains/(losses) before reclassifications	(76,660,440)	—	(76,660,440)
Amounts reclassified to consolidated income statement	—	(1,233,849)	(1,233,849)
Balance, December 31, 2022	(73,173,668)	—	(73,173,668)
Other comprehensive gains/(losses) before Reclassifications	25,983,424	—	25,983,424
Amounts reclassified to consolidated income Statement	—	—	—
Balance, December 31, 2023	($47,190,244)	$—	($47,190,244)

Note 13 - US Central Estate Settlement

On March 18, 2021, the NCUA announced an interim distribution representing a partial recovery to capital holders of the U.S. Central Asset Management Estate (AME). The Credit Union holds a 13.2% interest in the U.S. Central AME which is valued at approximately $1.7 billion, resulting in total expected recovery to the Credit Union of approximately $222 million. The Credit Union received two distributions for the year ended December 31, 2021 totaling $122,000,000. For the year ended December 31, 2022, the Credit Union received two additional distributions totaling approximately $89,400,000. For the year ended December 31, 2023, the Credit Union received the remaining full recovery of membership capital, approximately $10,899,000. Additionally, the Credit Union received $7,316,000 for the recovery of paid in capital for the year ended December 31, 2023. The Credit Union expects to recover approximately $2,800,000 of additional paid in capital recovery in 2024. Details on the recovery and value returned to membership are shown below:

	2023	2022	2021	Total
Total AME Distribution	$18,215,644	$89,418,284	$122,116,014	$229,749,942
Waived billed fees	$—	$—	($2,126,339)	($2,126,339)
Gain on USC Estate Settlement	$18,215,644	$89,418,284	$119,989,675	$227,623,603
Special PCC Dividend (2)	$12,284,375	$36,854,703	$49,139,764	$98,278,842

(1) Refer to Consolidated Statements of Income
(2) Refer to Consolidated Statements of Members' Equity

* * * End of Notes * * *

DoerenMayhew

305 West Big Beaver Road, Suite 200
Troy, Michigan 48084
248.244.3000 | doeren.com

INDEPENDENT AUDITOR'S REPORT

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

Opinion on Internal Control Over Financial Reporting

We have audited Alloya Corporate Federal Credit Union's internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control— Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Alloya Corporate Federal Credit Union maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the consolidated financial statements of Alloya Corporate Federal Credit Union, and our report dated February 29, 2024, expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of Alloya Corporate Federal Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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 financial statements in accordance with accounting principles generally accepted in the United States of America. 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 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 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.

Doeren Mayhew

Troy, Michigan
February 29, 2024

alloya®
Corporate Federal Credit Union

Corporate Headquarters:
184 Shuman Boulevard, Suite 400 • Naperville, IL 60563-8406
Phone: (800) 782-2431 • Fax: (518) 292-3796
www.alloyacorp.org

Alloya Corporate Federal Credit Union
Management Report on Annual Report
2023

We, the undersigned, certify that:

1. We have reviewed the annual report (2023 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 (2013) 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 2023, and, based on our knowledge, that Alloya is in compliance with the above designated safety and soundness laws and regulations during 2023.

Date: February 29, 2024

DocuSigned by: Todd Adams 56544F0BAFD9471...	DocuSigned by: Tracy Lafferty C7B591F991AF421...
Todd M. Adams, CEO	Tracy Lafferty, CFO