

2008



Corporate One Federal Credit Union
Annual Report



Where Credit Unions Belong

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From the Chairman and the President

A letter to our members

Recapping 2008 in our annual report simply can't be done without recognizing this was a period in which Corporate One Federal Credit Union and our credit union members experienced one of the most difficult years in their history. And a rich history it is.

2008 was supposed to be a celebration of the centennial year of credit unions in America, but it quickly became overshadowed by one of the most severe economic downturns since the Great Depression. The "Great Recession," as many call it, has toppled many financial giants and severely wounded many others. As we know, the corporate credit union system was not immune.



Gerald D. Guy
Chairman
KEMBA Financial CU



Lee C. Butke
President/CEO

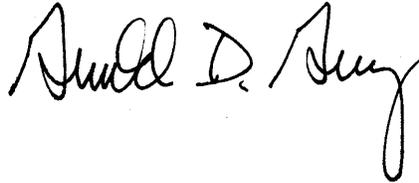
Events in 2008 culminated in the conservatorships in early 2009 of U.S. Central Federal Credit Union (U. S. Central), the wholesale credit union for the corporate network, and Western Corporate Federal Credit Union (WesCorp). These two actions alone will cost credit unions billions of dollars through losses to the Corporate Stabilization Fund; and the full effects of these conservatorships are still not fully known. Yet, while U.S. Central and WesCorp captured the majority of headlines, things were not as bleak at all corporates. Corporate One, for example, is one of only a handful of corporates that has managed to protect our members' capital, thanks in large part to many successful years of member support that allowed us to build our reserves and undivided earnings (RUDE). RUDE is the first line of defense to protect our members against losses.

However, even Corporate One – with our diversified portfolio – was not fully immune to the severe dislocation in the credit and housing markets. We incurred losses from our capital investment in U.S. Central as well as some of our own mortgage-backed investments, and we may have some additional other-than-temporary write-downs to take in the future. It's been a challenging time for us, and we know it's been difficult for you as well.

But every glass that is half empty is also half full. While the future is still unclear, there are many bright spots that point to a promising future for credit unions and for Corporate One. Bright spots such as increases in new members and strong loan growth at natural person credit unions. And at Corporate One we continue to experience strong earnings and earnings potential. Additionally, we've developed several new strategic partnerships to better serve credit unions, and – most importantly – we continue to see tremendous support from our existing members and are also hearing from many new potential members.

As we reflect on the past, yet look to the future, we want to say again something we can't say enough. Thank you. Thank you to the staff of Corporate One, who has made many personal and financial sacrifices to help protect our members from financial losses of their own. Thank you to the management team of Corporate One, who has implemented tactics and strategies that have helped us

navigate through these tough economic times. Thank you to our volunteer board of directors, who have provided the direction and insight that has protected our members' capital and preserved Corporate One so we can continue to fulfill our mission of serving our members/owners. And most importantly, thank you to each and every member, whose continued support has allowed us to weather this storm and is giving us the opportunity to become an even better organization in the future.

A handwritten signature in black ink that reads "Gerald D. Guy". The signature is written in a cursive style with a large, looping 'G' at the end.

Gerald D. Guy, Chairman
KEMBA Financial CU

A handwritten signature in black ink that reads "Lee C. Butke". The signature is written in a cursive style with a long horizontal stroke at the end.

Lee C. Butke,
President/CEO

Report of Independent Auditors

Supervisory Committee and Board of Directors
Corporate One Federal Credit Union
Columbus, Ohio

We have audited the accompanying balance sheets of Corporate One Federal Credit Union ("Corporate One") as of December 31, 2008 and 2007, and the related statements of operations, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of Corporate One's management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As more fully described in Note 2(k) to the financial statements, Corporate One has reported share accounts as equity in the balance sheets and statements of changes in members' equity that, in our opinion, should be reported as liabilities in order to conform with accounting principles generally accepted in the United States of America. If these share accounts had been presented as liabilities, total liabilities would increase and members' equity would decrease by \$3.4 billion and \$3.6 billion as of December 31, 2008 and 2007, respectively.

In our opinion, except for the effects on the balance sheet and statement of changes in members' equity of reporting share accounts as members' equity, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Corporate One Federal Credit Union as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As a result of Corporate One's 2008 net loss, primarily due to losses related to its investments in U.S. Central and securities available for sale, and the resulting members' equity at December 31, 2008, Corporate One has not met certain regulatory requirements as described in Note 14 to the financial statements. Corporate One has reported these matters to its regulator, the National Credit Union Administration (NCUA), and has received regulatory forbearance. Corporate One's management has also initiated various action steps, which have been accepted by the NCUA. However, the NCUA could impose future requirements on Corporate One.



Crowe Horwath LLP

Columbus, Ohio
October 15, 2009

Balance Sheets

Assets	December 31,	
	2008	2007
Cash and cash equivalents	\$ 510,718,922	\$ 508,046,812
Investments in financial institutions	632,411,323	976,794,257
Securities available for sale, at fair value	2,306,087,701	2,461,708,734
Securities held to maturity	5,704,593	
Loans to members	33,874,817	27,859,232
Accrued interest receivable	13,372,284	21,313,844
Other assets	17,618,163	11,832,299
TOTAL ASSETS	\$ 3,519,787,803	\$ 4,007,555,178
Liabilities and Members' Equity		
Liabilities:		
Borrowed funds	\$ 527,000,000	\$ 341,404,000
Dividends and interest payable	18,371,387	23,895,458
Accounts payable and other liabilities	3,614,606	3,169,322
TOTAL LIABILITIES	548,985,993	368,468,780
Members' equity:		
Settlement and regular shares	1,285,448,587	1,357,582,021
Share certificates	2,016,822,484	2,127,398,534
Member capital shares	116,277,742	98,389,942
Paid-in capital	25,681,996	25,681,996
Reserves and undivided earnings	30,818,302	104,171,179
Accumulated other comprehensive loss	(504,247,301)	(74,137,274)
TOTAL MEMBERS' EQUITY	2,970,801,810	3,639,086,398
 TOTAL LIABILITIES AND MEMBERS' EQUITY	 \$ 3,519,787,803	 \$ 4,007,555,178

See accompanying notes to financial statements.

Statements of Operations

Year ended December 31,

	2008	2007
Interest income:		
Investments and securities	\$ 158,751,880	\$ 202,965,135
Loans to members	1,004,011	925,114
TOTAL INTEREST INCOME	159,755,891	203,890,249
Dividend and interest expense:		
Share accounts	114,673,579	171,617,558
Other borrowings	17,044,343	10,452,485
Commercial paper	8,536	330,206
TOTAL DIVIDEND AND INTEREST EXPENSE	131,726,458	182,400,249
NET INTEREST INCOME	28,029,433	21,490,000
Service fee income, net	12,595,384	10,523,740
Impairment of capital investment in U.S. Central	(55,717,204)	
(Loss) gain on financial instruments, net	(38,339,013)	548,895
Operating expenses:		
Salaries and employee benefits	10,062,010	9,544,715
Office operations and occupancy expense	6,617,124	5,869,043
Other operating expenses	2,445,673	1,404,984
TOTAL OPERATING EXPENSES	19,124,807	16,818,742
NET (LOSS) INCOME	\$ (72,556,207)	\$ 15,743,893

See accompanying notes to financial statements.

Statements of Changes in Members' Equity

	Total Share Accounts	Paid-In Capital	Reserves and Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at January 1, 2007	\$ 3,262,592,906	\$ 25,681,996	\$ 89,981,575	\$ (230,737)	\$ 3,378,025,740
Comprehensive income (loss):					
Net income			15,743,893		15,743,893
Other comprehensive loss:					
Change in net unrealized loss on securities available for sale				(74,425,442)	(74,425,442)
Reclassification adjustment for net realized loss from sales of securities				518,905	518,905
Comprehensive loss					(58,162,644)
Net change in total share accounts	320,777,591				320,777,591
Dividends on paid-in capital			(1,554,289)		(1,554,289)
Balance at December 31, 2007	3,583,370,497	25,681,996	104,171,179	(74,137,274)	3,639,086,398
Comprehensive income (loss):					
Net loss			(72,556,207)		(72,556,207)
Other comprehensive loss:					
Change in net unrealized loss on securities available for sale				(473,493,462)	(473,493,462)
Reclassification adjustment for other than temporary declines in values of securities				43,383,435	43,383,435
Comprehensive loss					(502,666,234)
Net change in total share accounts	(164,821,684)				(164,821,684)
Dividends on paid-in capital			(796,670)		(796,670)
Balance at December 31, 2008	\$ 3,418,548,813	\$ 25,681,996	\$ 30,818,302	\$ (504,247,301)	\$ 2,970,801,810

See accompanying notes to financial statements.

Statements of Cash Flows

	Year ended December 31,	
	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Net (loss) income	\$ (72,556,207)	\$ 15,743,893
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	2,131,675	2,509,295
Net accretion	(2,787,115)	(717,466)
Loss on U.S. Central capital investment	55,717,204	
Net loss (gain) on financial instruments	38,339,013	(548,895)
Net gain on disposals of assets	(2,645)	(24,959)
Net change in accrued interest receivable	7,941,560	(740,374)
Net change in dividends and interest payable	(5,524,071)	4,766,895
Other, net	(3,506,044)	(1,387,603)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>19,753,370</u>	<u>19,600,786</u>
Cash flows from investing activities:		
Net change in investments in financial institutions	288,665,730	866,727,795
Available for sale securities:		
Sales		103,510,307
Maturities and principal paydowns	694,205,623	363,911,218
Purchases	(1,015,128,054)	(1,400,691,160)
Held to maturity securities:		
Maturities and principal paydowns	101,912	
Investment in credit union service organizations (CUSOs)	(2,000,000)	
Dividends received from investments in CUSOs	80,000	
Net change in loans to members	(6,015,585)	(13,036,095)
Net change in NCUA share insurance deposit	(26,784)	(15,299)
Net purchase of property and equipment	(1,993,452)	(995,040)
Proceeds from sale of property and equipment	7,282	24,959
NET CASH USED IN INVESTING ACTIVITIES	<u>(42,103,328)</u>	<u>(80,563,315)</u>
Cash flows from financing activities:		
Net change in borrowed funds	185,596,000	(5,596,000)
Change in shares and deposits	(159,777,262)	320,777,591
Dividends on paid-in capital	(796,670)	(1,554,289)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>25,022,068</u>	<u>313,627,302</u>
Net increase in cash and cash equivalents	2,672,110	252,664,773
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	508,046,812	255,382,039
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 510,718,922</u>	<u>\$ 508,046,812</u>
Supplemental disclosure:		
Dividends on share accounts and interest paid	<u>\$ 138,047,199</u>	<u>\$ 179,187,643</u>
Securities transferred from Available for Sale to Held to Maturity	<u>\$ 5,704,593</u>	
Conversion of U.S. Central Membership Capital Shares to Paid-in Capital II	<u>\$ 27,448,677</u>	

See accompanying notes to financial statements.

Notes to Financial Statements

(table dollar amounts in thousands)

(1) Organization

The purpose of Corporate One Federal Credit Union (Corporate One) is to foster and promote the economic well-being, growth and development of our membership base through fiscally responsible and effective funds management, along with loan, investment, and correspondent services for the ultimate benefit of our credit union members. Corporate One's national field of membership includes state- and federally chartered credit unions and other credit union organizations primarily in the Midwestern part of the United States. Corporate One's Board of Directors is composed of executive management from Corporate One's member credit unions.

(2) Summary of Significant Accounting Policies

The following is a description of the more significant accounting policies Corporate One follows in preparing and presenting our financial statements.

(a) Use of Estimates

The accounting and reporting policies of Corporate One conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry, except as discussed in Note 2(k). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Specifically, management has made assumptions in estimating the fair value of financial instruments, the assessment of other than temporary impairment and the amortization/accretion of premiums/discounts on investments subject to prepayment. Actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash, amounts due from depository institutions, overnight amounts at U.S. Central and federal funds sold. Net cash flows are reported on the accompanying statements of cash flows for loans, shares and certain other items.

Corporate One is required to maintain cash or deposits with the Federal Reserve Bank. The required amount at December 31, 2008 and 2007 was approximately \$3.0 million. In December 2008, to further diversify our liquidity options, we elected to voluntarily hold Reg D reserves in order to gain access to the Federal Reserve Discount Window. Therefore in 2009, we will be required to maintain cash or deposits in amounts greater than in prior years.

(c) Securities Purchased Under Agreements to Resell

Corporate One purchases certain securities under agreements to resell the same securities at a later date. Corporate One uses a custodian to hold the securities in this type of arrangement and signs a tri-party agreement with the custodian and seller as agreed-upon. The fair values of the securities purchased are monitored and additional collateral is obtained for these transactions if the fair values of the securities decline.

(d) Investments in Financial Institutions

Investments in financial institutions are carried at cost and reviewed for impairment. These investments consist of interest-bearing term deposits primarily in U.S. Central and other federally insured depository institutions, and Federal Home Loan Bank (FHLB) of Cincinnati stock.

(e) Securities

Debt securities are classified as held to maturity and carried on the balance sheet at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried on the balance sheet at fair value. Unrealized gains and losses on available for sale securities are excluded from earnings, and are reported as a separate component of members' equity. Such securities may be sold in response to changes in interest rates, changes in prepayment risk or other factors.

Amortization of premiums and accretion of discounts are recorded as adjustments to interest income from securities using the interest method. Realized gains and losses on the sale of securities available for sale are credited or charged to earnings when realized based on the specific-identification method.

Available for sale and held to maturity securities are evaluated individually to determine if a decline in fair value below the amortized cost is other than temporary. To determine whether the impairment is other than temporary, we consider whether we have the ability and intent to hold the investment until a price recovery, which may be at maturity. Corporate One also considers the reasons for the impairment and the severity and duration of the impairment. If the impairment was determined to be other than temporary, the cost basis of the security would be written down to fair value as a new cost basis and the amount of the write-down would be included in earnings.

(f) Loans to Members

Loans to members consist of settlement loans, demand loans, certificate-secured loans and term loans. Loans are stated at the current principal amount outstanding. Interest income is accrued on the daily balance outstanding at the borrowing rate. Corporate One evaluates each member's creditworthiness on a case-by-case basis. Loans are generally collateralized by member's share accounts and other member assets.

An allowance for loan losses was not considered necessary at December 31, 2008 and 2007 based on management's continuing review and evaluation of the loan portfolio and its judgment as to the effect of economic conditions on the portfolio. The evaluation by management includes consideration of past loan loss experience, changes in the composition of the loan portfolio, the current financial condition of the borrower, quality of the collateral and the amount of loans outstanding.

Corporate One incurred no loan losses in either 2008 or 2007 and considers no loans impaired as of, or during the years ended December 31, 2008 and 2007.

(g) Property and Equipment

Property and equipment, included in other assets on the balance sheets, are stated at cost net of accumulated depreciation. Depreciation is computed using the straight-line method and is based on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred.

(h) Income Taxes

Corporate One is exempt from federal and state income tax pursuant to Section 501(c)(1) of the Internal Revenue Code and Section 122 of the Federal Credit Union Act, respectively.

(i) Securities Sold Under Agreements to Repurchase

Corporate One sells certain of its securities under agreements to repurchase the same securities and pledges assets as collateral under these borrowings.

(j) Financial Instruments and Concentrations of Credit Risk

Financial instruments that potentially subject Corporate One to concentrations of credit risk consist of federal funds sold, securities purchased under agreements to resell (repurchase), deposits and capital investments at U.S. Central and investment securities. Corporate One invests in and borrows from highly rated domestic banks, and uses nationally recognized broker/dealers in the execution of trades for financial instruments. Exposure to individual counterparties or asset classes may be significant. Corporate One's exposure to U.S. Central is discussed in Note 3 and investment securities in Note 5. Additionally, in providing financial services solely to the credit union industry, Corporate One is dependent upon the viability of that industry.

Corporate One mitigates risks related to these concentrations through thorough evaluation of credit quality of the assets it purchases and the creditworthiness of its business partners. Counterparty risk is managed by ensuring that market counterparties are institutions of high credit quality and appropriate levels of collateral are maintained, if necessary.

(k) Members' Share Accounts

Members' share accounts are classified as equity to denote the ownership interest of the members. This classification conforms to the regulatory requirements of the National Credit Union Administration (NCUA). GAAP requires savings accounts to be classified as liabilities. The American Institute of Certified Public Accountants published a guide opining that credit unions' savings accounts should be classified as liabilities, which is "consistent with the prevailing practice of mutually owned savings and loan associations and savings banks." We believe that credit unions are fundamentally dissimilar to mutually owned savings and loan associations and savings banks, which, for example, accept deposits from the general public and usually are not democratically controlled by their members.

If members' shares had been presented as liabilities, total liabilities would increase and members' equity would decrease by \$3.4 billion and \$3.6 billion as of December 31, 2008 and 2007, respectively. If Corporate One had classified members' share accounts as liabilities, in accordance with GAAP, members' equity as of December 31, 2008 and 2007 would have been \$(447.7) million and \$55.7 million, respectively.

Credit unions transacting business with Corporate One are required to be a Partner member or an Associate member.

Membership capital shares (MCS) are required for Partner membership in Corporate One. Partner members enjoy Corporate One's most favorable rates on their investments and enjoy the lowest fees on settlement services. MCS do not have a stated maturity. Notice of intent to decapitalize by the Partner member is required and once notification is given, the shares will be redeemed in three years. These shares are not subject to share insurance coverage by the National Credit Union Share Insurance Fund (NCUSIF) and, in the event of liquidation of Corporate One, are payable only after satisfaction of all other claims. At December 31, 2008 and 2007, there were \$1.1 million and \$12,000 of shares on notice, respectively.

Corporate One also offers an Associate membership. Associate members are required to maintain a \$5 deposit. They may earn lower rates than Partner members on their investments with Corporate One and pay rates on settlement services with Corporate One according to the Associate member fee schedules.

(l) Paid-in Capital

Paid-in Capital (PIC) shares are investments by member credit unions and denote their ownership interest in Corporate One. PIC has no stated maturity date. Notice of intent to decapitalize by the Partner member is required and once notification is given, the shares are redeemed in twenty years.

PIC earns dividends that are non-cumulative, is not subject to share insurance coverage by the NCUSIF and, in the event of liquidation of Corporate One, is payable only after satisfaction of all other claims and the repayment of MCS. PIC is classified as equity in the financial statements. At December 31, 2008 and 2007, there were \$375,000 of shares on notice.

(m) Reserves and Undivided Earnings

Reserves and undivided earnings represent earnings not distributed as dividends to members. Portions of earnings are set aside as reserves in accordance with Corporate One's policy and the NCUA's rules and regulations.

(n) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale.

(o) Service Fees

Service fees are earned on various services provided to credit unions and their affiliates. These services consist of ACH and ATM programs, depository services, share draft processing, and certificate of deposit and securities brokering. Revenue is recognized in the period in which services are rendered. Gross service fee income for the years ending December 31, 2008 and 2007 was \$21.1 million and \$19.2 million, respectively. Revenues on the accompanying statements of operations are reduced by third-party costs incurred to provide these services.

(p) Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there currently are such matters that will have a material effect on the financial statements.

(q) Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the year ended December 31, 2008. These reclassifications had no impact on net (loss) income.

(r) Recent Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which modifies existing requirements for determining when an other-than-temporary impairment exists, and how such other-than-temporary impairments are measured and reported. This FSP changes the presentation and amount of the other-than temporary impairment recognized in the statement of operations by separating impairment into (a) the amount of impairment related to the credit loss and (b) the amount of the total impairment related to all other factors.

The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings and the amount of the total impairment related to all other factors is recognized in other comprehensive income (loss). The total other-than-temporary impairment is presented in the statement of operations with an offset for the amount of total other-than-temporary impairment that is recognized in other comprehensive income (loss). FSP No. 115-2 and 124-2 is effective for interim and annual reporting periods ending after June 15, 2009, and must be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. As a result of adopting FSP No. 115-2 and 124-2, effective January 1, 2009, Corporate One reclassified \$35.5 million of non-credit losses included in previous other-than-temporary impairment charges from reserves and undivided earnings to accumulated other comprehensive income (loss).

In April 2009, FASB issued FSP No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, which provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. FSP No. 157-4 also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP No. 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and must be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009, and is required if an entity elected to early adopt FSP No. 115-2 and 124-2. As a result, Corporate One adopted FSP No. 157-4 effective January 1, 2009. The adoption of FSP No. 157-4 did not have a material effect on Corporate One's financial statements.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, clarifies the required presentation of noncontrolling interests in the balance sheet and income statement, enhances disclosure requirements about noncontrolling interests, and clarifies the accounting for transactions that change ownership interests. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 160 is not expected to have a material effect on Corporate One's financial statements.

In April 2009, FASB issued FSP No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies, which clarifies FASB Statement No. 141 (revised 2007), Business Combinations, which addresses application issues raised by preparers, auditors, and members of the legal profession on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP No. 141(R)-1 is effective for fiscal years beginning after December 15, 2008. The adoption of FSP No. 141(R)-1 is not expected to have a material effect on Corporate One's financial statements.

(s) Regulatory Pronouncements

In January 2009, the NCUA issued an Advance Notice of Proposed Rulemaking (ANPR) which seeks to solicit comments and input from credit unions as to the future role of corporate credit unions in the credit union system. Specifically, the NCUA requested comments from credit unions in the areas of payments systems, liquidity and liquidity management, field of membership, expanded investment authority, two-tiered corporate credit union structure, capitalization, permissible investments, credit risk management, asset/liability management and corporate governance. The deadline for comments to be received by the NCUA was April 6, 2009. It is not known what impact, if any, changes resulting from the ANPR might have on Corporate One or the corporate credit union system.

In January 2009, the NCUA announced the Corporate Credit Union Stabilization Fund Legislation Proposal. The proposed legislation creates a stabilization fund providing the NCUA Board a wide range of options in making assessments over a period of years to restore the NCUSIF to at least a 1.2 percent equity level. The NCUA has publicly announced that the losses related to NCUA's efforts to stabilize the corporate credit union system exceed the insurance fund's retained earnings and are expected to impair, by 69 percent, the NCUSIF deposit insured credit unions hold as an asset on their books. Accordingly, Corporate One recognized the 69 percent impairment of its NCUSIF deposit as of December 31, 2008.

(3) Investments in Financial Institutions

Investments in financial institutions at December 31 are summarized as follows:

	<u>2008</u>	<u>2007</u>
U.S. Central:		
Share certificates	\$ 586,872	\$ 850,971
Membership capital shares	15,103	93,592
Membership paid-in capital shares		1,900
Other shares	12,238	10,553
Federal Home Loan Bank stock	15,702	15,090
Certificates of deposit	2,496	4,688
TOTAL INVESTMENTS IN FINANCIAL INSTITUTIONS	<u>\$ 632,411</u>	<u>\$ 976,794</u>

Investment in membership capital shares is a requirement of membership in U.S. Central. Membership capital shares (USC MCS) are subordinate to all other shares, share certificates and liabilities of U.S. Central except for paid-in capital (USC PIC) and paid-in capital II (USC PIC II) shares. U.S. Central has placed a moratorium on any and all redemptions of USC MCS until further notice. Prior to the moratorium, USC MCS could be withdrawn after the expiration of a three-year notice. Shares in this account may not be used as collateral for borrowing.

Investment in USC PIC is optional for U.S. Central members. USC PIC shares are subordinate to all other shares, share certificates, including USC MCS, and liabilities of U.S. Central, except USC PIC II shares. USC PIC shares can only be redeemed at the option of U.S. Central. Shares in this account may not be used as collateral for borrowing.

During 2008, U.S. Central issued a new form of capital called USC PIC II. For corporate credit unions, USC PIC II is a requirement of membership in U.S. Central. USC PIC II shares are structured to be subordinate to all other shares, including USC MCS and USC PIC shares, and liabilities of U.S. Central. USC PIC II shares have no maturity date and may only be redeemed when called for redemption by U.S. Central, but not before the fifth anniversary of issuance, except as necessary or appropriate in response to applicable law or regulatory requirements. Shares in this account may not be used as collateral for borrowing. In December 2008, \$27.4 million of Corporate One's USC MCS were converted to USC PIC II shares.

On January 28, 2009, U.S. Central received a \$1.0 billion capital note from the NCUSIF to be treated as paid-in capital for regulatory purposes. This capital note has priority over any other capital accounts at U.S. Central, including USC MSC, USC PIC and USC PIC II. On January 29, 2009, the NCUA Board approved the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP), under which the NCUSIF guaranteed U.S. Central's member shares in excess of the \$250,000 share insurance already provided. Effective March 20, 2009, in accordance with the Federal Credit Union Act, the NCUA placed U.S. Central into conservatorship and appointed itself as conservator. Pursuant to a Congressional amendment of the Federal Credit Union Act that established the Temporary Corporate Credit Union Stabilization Fund (TCCUSF) – a separate fund under the control of the NCUA – in June 2009, the NCUA legally transferred the obligation to pay claims under the TCCUSGP to the TCCUSF. In August 2009, the TCCUSGP was extended by the NCUA to December 31, 2011. The maximum maturity for shares subject to the guarantee is two years.

Under the definitions of MCS and PIC in Part 704.2 of Rules and Regulations of the NCUA (Part 704.2), capital is available to cover losses that exceed retained earnings. In May 2009, the NCUA published Letter to Credit Unions 09-CU-10, reinforcing the regulatory requirement in Part 704.2 that PIC and MCS are available to cover losses that exceed retained earnings and stated that when there is an accumulated deficit (retained earnings deficit) at a corporate credit union, PIC and MCS must be depleted to the extent necessary to eliminate the accumulated deficit. To cover the accumulated deficit through June 30, 2009, U.S. Central has depleted all of the USC PIC II and USC PIC shares and a portion of the USC MCS shares. Corporate One recorded the corresponding impairment of \$27.4 million of USC PIC II, \$1.9 million of PIC and \$26.4 million of MCS effective December 31, 2008, resulting in a total charge of \$55.7 million. As of December 31, 2008, Corporate One maintained a balance of USC MCS of \$15.1 million. This represents the amount remaining in our USC MCS account as of August 31, 2009. Additional losses at U.S. Central in excess of their reserves and undivided earnings, will require further depletion of this account on a pro rata basis for all USC MCS holders.

As of December 31, 2008, U.S. Central share certificates have specific maturities of \$131.6 million due in one year or less, and \$455.3 million due after one year through five years. Other shares consist of an account in which U.S. Central directs the associated dividends to the National Credit Union Foundation Community Investment Fund (CIF). Funds can be withdrawn from this account after a 90-day notice period. U.S. Central shares certificates as of December 31, 2008 are guaranteed by the NCUA and therefore not considered impaired.

Corporate One also maintains overnight and federal funds accounts at U.S. Central, which are classified as cash and cash equivalents in the accompanying balance sheets. At December 31, 2008 and 2007, overnight and federal funds at U.S. Central totaled \$423.0 million and \$410.6 million, respectively.

All shares and certificates with U.S. Central, except USC MCS, USC PIC and USC PIC II shares, are pledged under our advised line of credit agreement as further discussed in Note 9.

As a member of the FHLB of Cincinnati, Corporate One is required to own a certain amount of stock based on its level of borrowings and other factors, and may invest in additional amounts.

Certificates of deposit are with various domestic banks and credit unions and are all within the insurance limits as set forth by the Federal Deposit Insurance Corporate (FDIC) and/or the NCUA. As of December 31, 2008, these certificates have specific maturities of \$897,000 due in one year or less and \$1.6 million due after one year through three years.

(4) Securities Purchased Under Agreements to Resell

Corporate One had no outstanding securities purchased under agreements to resell at December 31, 2008. The average balance of securities purchased under agreements to resell was \$11.5 million for the year ended December 31, 2008. The highest month-end balance during 2008 was \$300.0 million. There were no securities purchased under agreements to resell during 2007.

(5) Securities

The amortized costs and fair values of securities at December 31 are summarized as follows:

	2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Government-sponsored enterprises	\$ 76,113	\$ 822		\$ 76,935
Corporate debt securities	191,954		\$ (31,189)	160,765
Mortgage-related securities	776,160	555	(165,797)	610,918
Asset-backed securities	1,766,108	51	(308,689)	1,457,470
TOTAL SECURITIES AVAILABLE FOR SALE	<u>\$ 2,810,335</u>	<u>\$ 1,428</u>	<u>\$ (505,675)</u>	<u>\$ 2,306,088</u>

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
	Securities held to maturity:			
Mortgage-related securities	\$ 5,705		\$ (1,663)	\$ 4,042
TOTAL SECURITIES HELD TO MATURITY	<u>\$ 5,705</u>		<u>\$ (1,663)</u>	<u>\$ 4,042</u>

	2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale:				
Government-sponsored enterprises	\$ 24,545	\$ 21	\$ (50)	\$ 24,516
Corporate debt securities	154,142		(4,626)	149,516
Mortgage-related securities	987,959	1,409	(39,007)	950,361
Asset-backed securities	1,369,200	737	(32,621)	1,337,316
TOTAL SECURITIES AVAILABLE FOR SALE	<u>\$ 2,535,846</u>	<u>\$ 2,167</u>	<u>\$ (76,304)</u>	<u>\$ 2,461,709</u>

Mortgage-related securities consist of: private-label mortgage-backed securities, mortgage-backed securities issued by Fannie Mae or Freddie Mac and asset-backed home-equity securities. Asset-backed securities consist primarily of securitized credit card, student loan and automobile receivables.

In order to determine if the declines in fair value below amortized cost represented other-than-temporary impairment for these securities, management considered various impairment indicators such as: securities on our internal watchlist, securities that have had ratings downgrades, securities that have been underwater for greater than twelve months and securities that have severe unrealized losses. We also utilize outside services to assist management in performing detailed cash flow analyses to determine if it is probable that all principal and interest cash flows will be received. The

analyses performed required assumptions about the collateral underlying the securities, including default rates, loss severities on defaulted loans and prepayments.

For the securities where receipt of all contractual principal was not viewed as probable, other-than-temporary impairment charges were recorded. As of December 31, 2008, we had seventeen mortgage-related securities that were considered other-than-temporarily impaired. These securities had a total par value of approximately \$94.0 million. Other-than-temporary impairment charges equal to the difference between the amortized cost of these securities and their fair value, totaled approximately \$43.4 million and is included in (losses) gains on financial instruments in the accompanying statements of operations. To reflect our intent and ability to hold these securities to maturity, upon recording the other-than-temporary charges, we transferred two of these securities to our held to maturity portfolio.

On January 1, 2009, Corporate One early adopted FSP No. 115-2. Additional discussion of the provisions of FSP No. 115-2 is provided in Note 2(r), Recent Accounting Pronouncements. FSP No. 115-2 changed how other-than-temporary charges are recorded. Under FSP No. 115-2, if an entity does not intend to sell a security and it is more likely than not that the entity will not be required to sell the security, only the portion of the other-than-temporary charge determined to represent a credit loss is recorded in earnings. All other components of the unrealized loss are recognized in other comprehensive income. FSP No. 115-2 also requires that entities recognize the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. Of the \$43.4 million recorded as other-than-temporary impairment charges in 2008, \$7.9 represented credit losses. Accordingly, upon adoption of FSP No. 115-2 on January 1, 2009, Corporate One reclassified \$35.5 million of non-credit losses, increasing reserves and undivided earnings and reducing accumulated other comprehensive income by like amounts.

The gross unrealized losses on available for sale securities that have been in loss positions less than 12 months and greater than 12 months at December 31 are summarized as follows:

	2008					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate debt securities	\$ 35,837	\$ (1,808)	\$ 124,928	\$ (29,381)	\$ 160,765	\$ (31,189)
Mortgage-related securities	165,718	(19,648)	368,019	(146,149)	533,737	(165,797)
Asset-backed securities	734,932	(70,973)	716,730	(237,716)	1,451,662	(308,689)
TOTAL TEMPORARILY IMPAIRED SECURITIES	\$ 936,487	\$ (92,429)	\$ 1,209,677	\$ (413,246)	\$ 2,146,164	\$ (505,675)

	2007					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government-sponsored enterprises			\$ 19,950	\$ (50)	\$ 19,950	\$ (50)
Corporate debt securities	\$ 149,516	\$ (4,626)			149,516	(4,626)
Mortgage-related securities	621,244	(32,752)	136,676	(6,255)	757,920	(39,007)
Asset-backed securities	1,009,702	(28,942)	80,905	(3,679)	1,090,607	(32,621)
TOTAL TEMPORARILY IMPAIRED SECURITIES	\$ 1,780,462	\$ (66,320)	\$ 237,531	\$ (9,984)	\$ 2,017,993	\$ (76,304)

At December 31, 2008, 6.2 percent of our gross unrealized losses is related to corporate debt securities. Our corporate debt holdings represent eight securities, four of which were rated AAA and four rated A by Nationally Recognized Statistical Rating Organizations (NRSROs).

Unrealized losses on asset-backed securities represent 61.0 percent of our gross unrealized losses at December 31, 2008. None of these securities were rated below BBB at December 31, 2008.

The amortized costs, fair values and credit grades of asset-backed securities at December 31 are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest* Credit Grade	Lowest* Credit Grade
Student loans	\$ 795,678	\$ 619,822	\$ 8	\$ (175,864)	AAA	A
Credit cards	637,600	520,922	43	(116,721)	AAA	A
Automobiles	332,830	316,726		(16,104)	AAA	BBB
ASSET-BACKED SECURITIES	\$ 1,766,108	\$ 1,457,470	\$ 51	\$ (308,689)		

*Credit grades are as of December 31, 2008 and are provided by the NRSROs used at the time of purchase.

Of the six asset-backed securities which were rated BBB, five of these carried higher credit grades by a second NRSRO at December 31, 2008. All five of these securities were guaranteed by a monoline insurer. In addition, all five have fully matured in 2009, with no loss incurred.

The remaining 32.8 percent of the gross unrealized losses at December 31, 2008 is related to residential mortgage-backed securities and home-equity asset-backed securities. The amortized costs, fair values and credit grades of mortgage-related securities at December 31 are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest* Credit Grade	Lowest* Credit Grade
Prime collateral	\$ 49,396	\$ 45,213		\$ (4,183)	AAA	BBB
Near-prime collateral**	236,137	155,590		(80,547)	AAA	B
Sub-prime collateral***	123,615	88,304		(35,311)	AAA	CCC
Agency	201,742	196,168	\$ 555	(6,129)		
Insured	165,270	125,643		(39,627)	AAA	CCC
MORTGAGE-RELATED SECURITIES	\$ 776,160	\$ 610,918	\$ 555	\$ (165,797)		

*Credit grades are as of December 31, 2008 and are provided by the NRSROs used at the time of purchase.

**Based on the definition used on offering circulars

*** Based on 660 or lower FICO score

At December 31, 2008, of the more than two hundred available for sale mortgage-related securities we own, only nine were rated CCC by at least one NRSRO. One such CCC-rated mortgage-related security is composed of subprime loan collateral. This security carried a higher credit grade by a second NRSRO and had no projected principal loss at year-end. Our remaining CCC-rated securities are guaranteed by the monoline insurer, Financial Guaranty Insurance Company (FGIC). As of December 31, 2008, our estimates project that fifteen securities will likely require the guarantee of FGIC for Corporate One to ultimately recover all contractual principal. The severe

distress in residential housing and mortgage market has negatively impacted FGIC. As a result, Corporate One estimates that FGIC will only cover 70 percent of claims related to their guarantees on Corporate One's FGIC insured securities. Accordingly, we recorded other-than-temporary impairment charges equal to the difference between the amortized cost of these securities and their fair value.

Corporate One believes the decline in fair values recorded as unrealized losses are primarily attributable to the deterioration of liquidity and larger risk premiums in the market consistent with the broader credit markets and are not a result of the performance of the underlying collateral or credit quality supporting the securities. We expect the fair value to recover as the securities approach their maturity date or as the credit markets stabilize. Corporate One has the ability and intent to hold these securities until a price recovery or maturity. Accordingly, Corporate One determined that there was no additional other-than-temporary impairment of its securities at December 31, 2008 above the \$43.4 million recorded in the statement of operations.

Under the NCUA expanded authorities granted to Corporate One in accordance with Part 704, long-term credit ratings for security purchases must be "A" or higher. As of December 31, 2008, Corporate One owned 27 securities, with a total amortized cost of \$111.5 million that had been downgraded below the NCUA minimum-rating requirement. As a result of these credit rating downgrades, Corporate One filed the necessary Investment Action Plans (IAP) with the NCUA in accordance with Part 704.10 and requested permission to continue to hold the downgraded securities. Corporate One has received such approval from the NCUA.

The expected distributions of securities at December 31, 2008 are reflected in the following table. Expected distributions may differ from contractual final maturities because of scheduled principal paydowns and because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. The majority of variable-rate securities are amortizing securities and the entire principal amount outstanding is included in the maturity category that corresponds with the final return of principal.

	Available for Sale	Held to Maturity	
	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 403,453		
Due after one year through five years	1,102,905		
Due after five years through ten years	405,376	\$ 3,839	\$ 3,135
Due after ten years	394,354	1,866	907
TOTAL SECURITIES	\$ 2,306,088	\$ 5,705	\$ 4,042

At December 31, 2008, approximately 71 percent of the par value amount, or \$2.0 billion, of Corporate One's securities were variable-rate securities, the majority of which had interest rates that reset monthly, predominantly based upon LIBOR. Of these variable-rate securities, 16 percent of the dollar amount, or \$334.1 million of such securities had interest rate caps that were fixed at the time of issuance and the caps range from 7 percent to 18 percent. Less than 1 percent of the dollar amount of variable-rate securities had interest rate caps that fluctuate depending on the resetting of the interest rate on the underlying collateral of the security.

(6) (Loss) Gain on Financial Instruments, Net

The following table provides a summary of the net (loss) gain on financial instruments at December 31:

	<u>2008</u>	<u>2007</u>
Net gain on redemptions of investments		\$ 1,068
Net loss on sales of available for sale securities		(519)
Other than temporary declines in value	\$ (43,383)	
Net gain on early certificate redemptions	5,044	
(LOSS) GAIN ON FINANCIAL INSTRUMENTS, NET	<u>\$ (38,339)</u>	<u>\$ 549</u>

U.S. Central share certificates are redeemable prior to maturity at fair value as determined by U.S. Central. Proceeds from certificate redemptions in 2007 were \$686.1 million, resulting in gross gains of \$1.1 million, and gross losses of \$52,000. There were no redemptions of certificates during 2008.

Proceeds from the sale of available for sale securities were \$103.5 million in 2007. Gross gains of \$193,000 and gross losses of \$712,000 were recorded on securities during 2007. There were no sales of securities during 2008.

During 2008, we determined that the unrealized losses associated with seventeen debt securities were other-than-temporary. As a result, we recorded an impairment charge of \$43.4 million that reduced the carrying values of the securities to their fair values (see Note 5). There was no other-than-temporary impairment in 2007.

In 2008, certain member credit unions requested to redeem Corporate One certificates prior to their contractual maturity. The total value of the certificates redeemed was approximately \$195.0 million. We redeemed the certificates at fair value, resulting in gross gains of \$5.1 million and gross losses of \$80,000.

(7) Equity Investments

Investments in non-marketable equity securities, which are included in other assets in the accompanying balance sheets, at December 31 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Primary Financial Company LLC	\$ 620	\$ 455
Processing Alliance LLC	93	96
eDoc Innovations, Inc.	2,015	
TOTAL EQUITY INVESTMENTS	<u>\$ 2,728</u>	<u>\$ 551</u>

Corporate One has a 6.72 percent investment in Primary Financial Company LLC (Primary Financial). This investment meets the criteria outlined by the Emerging Issues Task Force (EITF) in EITF No. 03-16, Accounting for Investments in Limited Liability Companies (LLC), and is accounted for using the equity method. Corporate One's portion of Primary Financial's current period net income or loss, recognized as a component of service fee income in the accompanying statements of operations, was \$245,000 in 2008 and a loss of \$10,000 in 2007. In December 2008, Primary Financial paid a dividend of \$10,000 per share, resulting in a total dividend of \$80,000 to Corporate One.

Corporate One is a co-broker of Primary Financial and, as such, earns a spread on certificates placed by Corporate One. Corporate One also earns additional spreads on certificates it places, as well as royalties on certificates placed by other co-brokers. These additional spreads and royalties represent additional consideration related to Corporate One's sale of Primary Financial in 2003. Corporate One recognized income of \$1.3 million in 2008 and \$567,000 in 2007 on the certificates placed by Corporate One. In addition, Corporate One recognized \$1.7 million in 2008 and \$643,000 in 2007, related to the additional spreads on certificates it places and royalties on certificates placed by other co-brokers. The additional spread on certificates continues through 2015 and is included as a component of service fee income in the accompanying statements of operations.

Corporate One performs accounting and marketing services for Primary Financial under a support services contract. The contract is a one-year contract with provisions for automatic annual renewals. Corporate One recognized, as a component of service fee income in the accompanying statements of operations, \$171,600 in 2008 and \$165,000 in 2007 related to this agreement.

Corporate One owns 50 percent of Processing Alliance LLC (Processing Alliance). Corporate One does not have a majority voting interest and does not maintain a controlling interest in Processing Alliance. This investment, therefore, is accounted for using the equity method. This company was formed in December 2006 to provide forward cash collection services as well as other services to credit unions. Corporate One's portion of Processing Alliance's current period net loss, recognized as a component of service fee income in the accompanying statements of operations, was a loss of \$3,600 and \$4,000 in 2008 and 2007, respectively.

In October 2008, Corporate One invested \$2.0 million in eDoc Innovations, Inc. (eDoc). This investment represents a 28.1 percent ownership interest. Corporate One does not have a majority voting interest and does not maintain a controlling interest in eDoc. This investment, therefore, is accounted for using the equity method. eDoc is a leading provider of electronic document management technology. Corporate One's portion of eDoc's current period net income, recognized as a component of service fee income in the accompanying statements of operations, was \$15,500 at December 31, 2008.

(8) Other Assets

Included in Other Assets is a deposit with the NCUA for share insurance (see Note 2(s)), accounts receivable, prepaid accounts and net property and equipment. Equity investments are also included in other assets and are discussed in Note 7.

Property and equipment, valued at cost less accumulated depreciation, at December 31 are summarized as follows:

	<u>2008</u>	<u>2007</u>
Buildings and improvements	\$ 4,468	\$ 4,461
Equipment	<u>16,906</u>	<u>14,936</u>
	21,374	19,397
Less: accumulated depreciation	<u>14,622</u>	<u>12,506</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 6,752</u>	<u>\$ 6,891</u>

(9) Borrowed Funds

Corporate One had \$50.0 million in outstanding commercial paper at December 31, 2008 and no outstanding commercial paper at December 31, 2007. Commercial paper outstanding averaged approximately \$2.5 million and \$6.1 million during 2008 and 2007, respectively. The maximum amount outstanding at any month-end during 2008 was \$50.0 million and there was no amount outstanding at any month-end during 2007. Subsequent to December 31, 2008 Corporate One canceled its commercial paper program.

Corporate One has received commitments from several financial institutions enabling Corporate One to borrow funds under revolving lines of credit throughout 2009. At December 31, 2008, these commitments totaled \$140.0 million and no amounts were outstanding on these lines of credit. The interest rates on these lines are indexed off of money market rates, primarily LIBOR, plus a margin of up to 70 basis points. As collateral for these lines of credit, Corporate One has pledged securities to these financial institutions that have a fair value of approximately \$130.9 million. In March 2009, one revolving line of credit totaling \$30.0 million expired and Corporate One elected not to renew.

During 2008, Corporate One was granted the ability to issue up to \$130.0 million of senior unsecured debt obligations guaranteed under the NCUA's Temporary Corporate Credit Union Liquidity Guarantee Program. At December 31, 2008, \$130.0 million was outstanding under this program. As of December 31, 2008, the fee to participate was 75 basis points per annum assessed on the outstanding balance.

In addition, Corporate One has an advised line of credit with U.S. Central that, by its nature, may be withdrawn by U.S. Central. Corporate One may take advances on this line of credit up to \$650.0 million based on the amount of eligible collateral available to support such advances. Eligible collateral consists of all shares and certificates with U.S. Central. As such, all of Corporate One's shares and certificates with U.S. Central have been pledged under this line of credit agreement. For overnight borrowings on this line, the interest rate is variable and is established by U.S. Central on a daily basis. Fixed-rate term borrowings are also available under this line of credit.

Corporate One also maintains reverse repurchase agreements with certain parties allowing for additional liquidity of approximately \$795.2 million. These agreements use some of our asset-backed securities as collateral. Corporate One had no outstanding reverse repurchase agreements at December 31, 2008. Average borrowings under reverse repurchase agreements were

approximately \$24.6 million during 2008. There was no amount outstanding at any month-end during 2008 and 2007.

As a member of the FHLB of Cincinnati, Corporate One is eligible to take advantage of the FHLB's numerous credit products and advances. Advances and borrowings from the FHLB are required to be collateralized by securities held in safekeeping by the FHLB. At December 31, 2008 and 2007, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately \$387.5 million and \$493.8 million, respectively, which provided a borrowing capacity of \$328.9 million and \$403.5 million, respectively.

The following table provides a summary of our borrowings at December 31.

	<u>2008</u>		<u>2007</u>	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
FHLB:				
Due in one year or less	\$ 295,000	2.98-3.22%	\$ 30,000	3.99-4.39%
Due after one year through five years	30,000	3.99-4.39%		
U.S. Central:				
Due in one year or less	2,000	0.50-4.27%	309,904	3.14-4.78%
Due after one year through five years	20,000	4.45-4.99%	1,500	4.22-4.27%
Federal funds borrowed	130,000	0.50%		
Commercial paper:				
Due in one year or less	50,000	0.20%		
TOTAL BORROWED FUNDS	<u><u>\$ 527,000</u></u>		<u><u>\$ 341,404</u></u>	

(10) Share Accounts and Paid-in Capital (PIC)

Balances and weighted average rates of share accounts and PIC at December 31 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
Settlement and regular shares	\$ 1,285,449	0.40%	\$ 1,357,583	3.81%
Share certificates	2,016,822	3.55%	2,127,399	5.06%
MCS	116,278	0.30%	98,388	3.75%
TOTAL SHARE ACCOUNTS	<u><u>\$ 3,418,549</u></u>		<u><u>\$ 3,583,370</u></u>	
PIC	<u><u>\$ 25,682</u></u>	1.25%	<u><u>\$ 25,682</u></u>	5.25%

Settlement and regular share accounts are available to members on demand and pay dividends either daily or monthly. Share certificate accounts have specific maturities and dividend rates. Dividend payments on share certificate accounts vary according to the type of share certificate issued and the length of maturity. Share certificates can be redeemed by members prior to maturity at fair value, as determined by Corporate One.

Total share certificate accounts by maturity at December 31, 2008 are summarized as follows:

Year of Maturity:	
2009	\$ 1,298,117
2010	398,844
2011	151,332
2012	75,125
2013	93,404
TOTAL SHARE CERTIFICATES	<u>\$ 2,016,822</u>

Eligible accounts of members are insured by the NCUSIF up to \$250,000 per member. As of December 31, 2008, insured member accounts totaled \$140,229,853.

On January 29, 2009, the NCUA Board approved the TCCUSGP, under which the NCUSIF guaranteed Corporate One's member shares in excess of the \$250,000 share insurance already provided. Pursuant to a Congressional amendment of the Federal Credit Union Act that established the TCCUSF – a separate fund under the control of the NCUA – in June 2009, the NCUA legally transferred the obligation to pay claims under the TCCUSGP to the TCCUSF. In August 2009, the TCCUSGP was extended by the NCUA to December 31, 2011. The maximum maturity for shares subject to the guarantee is two years.

(11) Commitments and Contingencies

Corporate One is a party to various financial instruments with off-balance-sheet risk that are used in the normal course of business to meet the financing needs of our members and to manage our exposure to market risks. These financial instruments involve, to varying degrees, elements of credit risk that are not recognized in the balance sheets.

These financial instruments include committed and advised lines of credit. The contractual amounts of these instruments represent the extent of Corporate One's exposure to credit loss. Corporate One uses the same credit policies in making these commitments and obligations as it does for on-balance-sheet instruments. In extending commitments, Corporate One evaluates each member's creditworthiness on a case-by-case basis. All outstanding commitments are subject to collateral agreements and have termination clauses. At December 31, 2008 and 2007, these financial instruments included outstanding advised lines of credit of approximately \$1.0 billion and \$1.2 billion, respectively. Outstanding committed lines of credit at December 31, 2008 were approximately \$16.0 million. There were no outstanding committed lines of credit at December 31, 2007.

Commitments to extend credit to members remain effective as long as there is no violation of any condition established in the agreement. Advances on these commitments generally require repayment within one year of the advance. Since a portion of the commitments are expected to terminate without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

(12) Retirement Plan

Corporate One sponsors a safe harbor 401 (k) plan, which covers substantially all employees. In 2008 and 2007, for each eligible participant, Corporate One contributed a total of 11.5 percent of the participant's eligible compensation to the participant's accounts in the plans. A portion of this percentage is discretionary. Employees also have the option to contribute a portion of their compensation on a pre- or post-tax basis. Retirement expense was approximately \$855,000 in 2008 and \$785,000 in 2007.

(13) Fair Value of Financial Instruments

The estimated fair values of financial instruments have been determined by Corporate One using available market information and appropriate valuation methodologies. Due to their short-term nature, the fair values of cash and cash equivalents, accrued interest receivable, and dividends and interest payable approximate carrying values. The fair value of the NCUSIF deposit approximates the carrying value because, if redeemed, it would be redeemed at cost. The fair values of loan commitments are determined based on the fees currently charged to enter into similar agreements, taking into consideration the remaining terms of the agreements and the present creditworthiness of the counterparty. Neither the fees earned during the year on these instruments nor their fair value at year end are material to the financial statements.

The assumptions used by Corporate One in estimating fair-value disclosures for its remaining financial instruments are described below.

- ★ Investments in financial institutions are based on discounted cash flow analyses using current market rates, except FHLB stock. It was not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability.
- ★ The fair values for securities are generally determined by discounting the future cash flows using rates currently available for similar securities, or based on quoted market process or dealer quotations, if available.
- ★ The estimated fair value of loans is determined by discounting future cash flows using interest rates currently being offered to members for loans with similar terms.
- ★ The fair value of borrowed funds is based on discounted cash flow analyses using current market rates.
- ★ The fair values approximate carrying values for share accounts payable on demand at the balance sheet date. The fair value of fixed-maturity share accounts is estimated by discounting the future cash flows using the rates currently offered for share accounts of similar remaining maturities.

The fair values of Corporate One's financial instruments at December 31 are summarized as follows:

	<u>2008</u>		<u>2007</u>	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 510,719	\$ 510,719	\$ 508,047	\$ 508,047
Investments in financial institutions	632,411	638,776	976,794	982,950
Securities available for sale	2,306,088	2,306,088	2,461,709	2,461,709
Securities held to maturity	5,705	4,042		
Loans to members	33,875	34,522	27,859	27,859
Accrued interest receivable	13,372	13,372	21,314	21,314
NCUSIF deposit	170	170	623	623
Liabilities and members' equity:				
Borrowed funds	\$ 527,000	\$ 534,887	\$ 341,404	\$ 344,294
Dividends and interest payable	18,371	18,371	23,895	23,895
Share accounts	3,418,549	3,408,071	3,583,370	3,574,610

Effective January 1, 2008, Corporate One adopted SFAS No. 157. Under this new standard, fair value is defined as 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. SFAS No. 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs

and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that Corporate One has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect Corporate One's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

SFAS No. 157 further requires that the highest level of valuation available be used. This statement describes inactive markets as characterized by few transactions for the asset, prices that are not current, prices that vary substantially, or some combination thereof, and while an entity should not assume a market is inactive; it should also not assume the prices available are from active markets. The determination of market participation requires a significant amount of judgment by management.

Assets measured at fair value on a recurring basis are summarized below as of December 31, 2008.

	Fair Value Using			
	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Securities available for sale:				
Corporate debt securities	\$ 160,765	\$ 160,765		
Government-sponsored entities	76,935		\$ 76,935	
Mortgage-related securities	610,918		610,918	
Asset-backed securities	1,457,470		1,457,470	
TOTAL SECURITIES AVAILABLE FOR SALE	\$ 2,306,088	\$ 160,765	\$ 2,145,323	

(14) Regulatory Capital and Net Economic Value Requirements

The NCUA periodically examines Corporate One's operations as part of its legally prescribed oversight of credit unions. Based on its examination, the NCUA can direct Corporate One to change operations and management, adjust historical financial statements and make other changes in accordance with their findings. Additionally, the NCUA requires that corporate credit unions maintain a minimum capital ratio (capital divided by 12 month rolling daily average net assets (DANA)) based upon the corporate's investment authority as authorized by the NCUA. The NCUA defines capital as reserves and undivided earnings, PIC and MCS less the amortized portion of PIC and MCS on notice. The NCUA also requires a corporate credit union to retain certain earnings levels if its retained earnings ratio (reserves and undivided earnings divided by 12 month rolling DANA) falls below the required percentage.

The following table outlines the components of regulatory capital at December 31.

	<u>2008</u>	<u>2007</u>
Retained earnings	\$ 30,818	\$ 104,171
PIC	25,682	25,682
MCS	116,278	98,390
TOTAL	<u>172,778</u>	<u>228,243</u>
Less: amortized PIC and MCS on notice	(366)	(1)
REGULATORY CAPITAL	<u>\$ 172,412</u>	<u>\$ 228,242</u>

Corporate One's actual reserves and undivided earnings, capital and regulatory ratios at December 31 are presented in the following table:

	<u>2008</u>	<u>2007</u>	Regulatory Minimum
Capital	\$ 172,412	\$ 228,242	
Capital ratio	4.35%	5.99%	5.00%
Reserves and undivided earnings	\$ 30,818	\$ 104,171	
Retained earnings ratio	0.78%	2.73%	2.00%

As of December 31, 2008, Corporate One did not meet the minimum regulatory required capital or retained earnings ratio. This is primarily due to impairment losses related to Corporate One's investment in U.S. Central (see additional discussion in Note 3) and securities available for sale (see additional discussion in Note 5). On January 1, 2009, Corporate One early adopted FSP No. 115-2. Additional discussion of the provisions of FSP No. 115-2 is provided in Note 2(r), Recent Accounting Pronouncements. Accordingly, upon adoption of FSP No. 115-2 on January 1, 2009, Corporate One reclassified \$35.5 million of non-credit losses, increasing reserves and undivided earnings and reducing accumulated other comprehensive income by like amounts. See Note 15 Subsequent Events (Unaudited) for Corporate One's reserves and undivided earnings, capital and regulatory ratios at August 31, 2009.

There are a number of remedies available to a corporate credit union should its regulatory ratios fall below the required minimum. However, despite such remedies, the NCUA could restrict the corporate's ability to, among other things, accept additional deposits, open new accounts, make loans or pay dividends. In April 2009, the NCUA issued an order, under its authority in Part 704.1(b), permitting an alternative capital level for purposes of regulatory compliance outlined in Part 704. The order will remain in effect until modified or rescinded by the NCUA Board or until the effective date of the final rulemaking for Part 704 that is currently in the pre-rule stage. As a result of the order, Corporate One is allowed to use capital levels reported in its November 2008 call report, for purposes of determining regulatory compliance with its capital ratio requirement and earnings retention requirement. At November 30, 2008, regulatory capital totaled \$264.8 million which, when divided by 12-month DANA as of December 31, 2008, resulted in a capital ratio of 6.68 percent. Reserves and undivided earnings totaled \$123.1 million at November 30, 2008, which, when divided by 12-month DANA as of December 31, 2008 resulted in a retained earnings ratio of 3.10 percent.

Corporate One's net economic value (NEV) sensitivity is limited by Part 704 of NCUA rules and regulations to a 28 percent change from base and an NEV ratio greater than the minimum regulatory ratio of 2.0 percent. If Corporate One fails to meet its NEV requirements for 30 calendar days, a detailed, written action plan that sets forth the time needed and means by which it intends to correct the violation must be submitted to the NCUA. In addition, discretionary actions by the NCUA are possible that could have a material effect on Corporate One's financial position and operations.

Due to the effects of the declines in fair values of our available for sale securities (see additional discussion in Note 5), Corporate One's NEV became negative in April 2008 and remained negative as of December 31, 2008. As a result, Corporate One did not comply with the NEV sensitivity requirement or the NEV ratio requirement during most of 2008 or as of December 31, 2008. Corporate One submitted the required plan to the NCUA and the plan was subsequently approved by the NCUA.

(15) Subsequent Event (Unaudited)

Corporate One's 2008 audited financial statements were delayed pending the completion of U.S. Central's 2008 audit so we could determine the carrying amount of our capital investments in U.S. Central and any necessary impairment charge. Because of the time that has elapsed since December 31, 2008, we are supplying the following information.

A summary of Corporate One's results of operations for the eight months ended August 31, 2009:

Net interest income	\$ 12,814
Net settlement income	8,421
Net (loss) on financial instruments	(11,425)
Operating expenses	10,134
NET (LOSS)	<u>\$ (324)</u>

Net loss on financial instruments is related to additional other-than-temporary impairment charges. Worsening economic conditions in 2009, resulted in continued deterioration in the residential housing markets. Such deterioration led to corresponding increases in the projected credit losses for certain mortgage-related securities in Corporate One's investment portfolio. In May 2009, we recorded \$11.4 million in other-than-temporary impairment charges on mortgage-related securities that had estimated principal losses. We consider these other-than-temporary impairment charges to be Type 2 subsequent events. Further deterioration in the residential housing markets will likely result in additional other-than-temporary impairment charges.

Members' equity at August 31, 2009 is as follows:

Settlement and regular shares	\$ 1,665,001
Share certificates	1,855,490
Member capital shares	116,520
Paid-in capital	25,682
Reserves and undivided earnings	65,779
Accumulated other comprehensive loss	(391,795)
TOTAL MEMBERS' EQUITY	<u>\$ 3,336,677</u>

On January 1, 2009, Corporate One early adopted FSP No. 115-2. Additional discussion of the provisions of FSP No. 115-2 is provided in Note 2(r), Recent Accounting Pronouncements. FSP No. 115-2 changed how other-than-temporary charges are recorded. Under FSP No. 115-2, if an entity does not intend to sell a security and it is more likely than not that the entity will not be required to sell the security, only the portion of the other-than-temporary charge determined to represent a credit loss is recorded in earnings. All other components of the unrealized loss are

recognized in other comprehensive income. FSP No. 115-2 also requires that entities recognize the cumulative effect of initially applying this FSP as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. Of the \$43.4 million recorded as other-than-temporary impairment charges in 2008, \$7.9 represented credit losses. Accordingly, upon adoption of FSP No. 115-2 on January 1, 2009, Corporate One reclassified \$35.5 million of non-credit losses, increasing reserves and undivided earnings and reducing accumulated other comprehensive income by like amounts.

The following table outlines the components of regulatory capital at August 31 2009.

<u>2009</u>	
Retained earnings	\$ 65,779
PIC	25,682
MCS	116,519
TOTAL	<u>207,980</u>
Less: amortized PIC and MCS on notice	(1,031)
REGULATORY CAPITAL	<u>\$ 206,949</u>

Since accumulated other comprehensive loss is not a component of regulatory capital, Corporate One at August 31, 2009 had capital and retained earnings ratios of 5.21 percent and 1.66 percent, respectively, on total regulatory capital and retained earnings of \$206.9 million and \$65.8 million, respectively. Had Corporate One classified members' share accounts as liabilities in accordance with GAAP, members' equity at August 31, 2009 would have been a deficit of \$300.3 million.

The fair value of securities available for sale and held to maturity at August 31, 2009 are as follows:

	Fair Value	Gross	Gross
		Unrealized Gains	Unrealized Losses
Securities available for sale:			
Government-sponsored enterprises	\$ 17,757	\$ 775	
Corporate debt securities	182,450		\$ (9,772)
Mortgage-related securities	466,973	738	(200,780)
Asset-backed securities	1,366,356	12,092	(190,094)
TOTAL SECURITIES AVAILABLE FOR SALE	<u>\$ 2,033,536</u>	<u>\$ 13,605</u>	<u>\$ (400,646)</u>
	Fair Value	Gross	Gross
		Unrealized Loss	Unrecognized Loss
Securities held to maturity:			
Mortgage-related securities	\$ 2,712	\$ (4,756)	\$ (15)
TOTAL SECURITIES HELD TO MATURITY	<u>\$ 2,712</u>	<u>\$ (4,756)</u>	<u>\$ (15)</u>

A more detailed analysis of accumulated other comprehensive loss by security type as of August 31, 2009 compared to December 31, 2008 is as follows:

	August 31, 2009	December 31, 2008
Mortgage-related	\$ (204,797)	\$ (165,242)
Student loans	(149,735)	(175,856)
Credit cards	(24,794)	(116,678)
Auto	(3,473)	(16,104)
Corporate debt	(9,771)	(31,189)
Government-sponsored enterprises	775	822
TOTAL ACCUMULATED OTHER COMPREHENSIVE LOSS	<u>\$ (391,795)</u>	<u>\$ (504,247)</u>

There have been no sales of securities from January 1, 2009 through August 31, 2009.

Due to the effects of the declines in fair values of our securities, Corporate One's NEV remains negative as of August 31, 2009. As a result, Corporate One did not comply with the NEV sensitivity requirement or the NEV ratio requirement as of and for the eight months ending August 31, 2009. Corporate One submitted the required plan to the NCUA in 2008 and the plan was subsequently approved by the NCUA.

Corporate One's selected balance sheet amounts at August 31, 2009 are as follows:

Total assets	\$ 3,545,740
Cash and cash equivalents	774,215
Securities available for sale	2,033,536
Securities held to maturity	2,727
Investments in financial institutions	691,743
Total liabilities	209,063
Borrowed funds	195,000



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