CORPORATE ONE

2020 FINANCIAL REPORT

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A LETTER TO OUR MEMBERS

Dear Members:

2020 certainly made an indelible mark on each of us. In addition to the global pandemic, our country faced many social and political challenges that added to the uncertainty and turmoil of the last year. As your corporate partner, our mission is to help you succeed. In 2020, we determined there was no better way for us to fulfill this mission than to continue to be a source of certainty amidst the ambiguity. Corporate One remained steadfast in our commitment to be a financially strong, transparent corporate partner focused on prioritizing our credit union family and helping you succeed. We worked tirelessly to ensure the health and safety of our staff while simultaneously supporting uninterrupted operations for you, our members, who were on the front lines all year doing amazing work, assisting individuals and businesses who so desperately needed help.

Melissa A. Ashley
CEO/President
Corporate One
Federal Credit Union

After a year that was unlike any other and one that we are unlikely to forget, Corporate One is especially grateful that we can report a record year in earnings. In 2020, we reported net income of $16.5 million, a 23 percent increase from the prior year and our second highest year of earnings. Strong earnings enabled us to pay $2.3 million in Perpetual Contributed Capital (PCC) dividends to PCC holders and to continue to grow retained earnings, which were $115.1 million at the end of 2020, and contributed to an increase in our total regulatory capital to $331.2 million at December 31, 2020.

R. Lee Powell, Jr.
Chairman
CEO/President
Desco FCU

Supporting credit unions through our CUSOs

Our wholly owned CUSOs also worked hard in 2020 to support credit unions and added significant value to Corporate One's overall achievements. Lucro Commercial Solutions configured its Digital Business Lending Center (DBLC) so it could be used by SBA-approved credit unions for a streamlined PPP loan application and forgiveness process, offering relief for many credit unions from much of the heavy lifting associated with this process. In addition, as credit unions' balance sheets grew dramatically during 2020, Accolade Investment Advisory was able to advise their clients on investing strategies that best supported their needs. And Sherpa Technologies continued to help credit unions with digital transformation and payments modernization. For example, last year Sherpa launched its first digital loan payments solution developed as a result of its Innovation Council collaboration. This solution, which was modeled to emulate biller-direct payment offerings, enables greater payment flexibility and deepens relationships with loan members. The launch of this solution was timely because while Corporate One and its CUSOs have been aligned for many years with where the financial industry is heading, the pandemic accelerated the need/demand for both digital transformation efforts and digital channels.

Evolving payments

As credit unions continue to face the urgency of remaining relevant financial providers in this age of digital disruption, big steps were taken in 2020 to keep pace with the momentum that's advancing the global desire for faster/real-time payments. Last May, Corporate One and Sherpa achieved two important milestones in our respective strategic initiatives on faster payments: Corporate One became the first corporate credit union certified as a participant on The Clearing House's (TCH) RTP® network, and Sherpa became the first CUSO and non-core third-party service provider (TPSP) certified by the RTP network. We also formalized our Funding Agent Service for the RTP network, which offers credit unions an option to outsource the comprehensive management of around-the-clock settlement and funding associated with real-time payments participation. These were significant steps for us that will help increase credit union access to the network and move us closer toward making real-time-payments access a reality for credit unions. In addition to adding these real-time payments capabilities, which will soon be leveraged to offer additional solutions for credit unions, we also launched a new online educational resource in 2020, the Real-Time Payments Info Center, which features articles, webinars and infographics created by Corporate One, the U.S. Faster Payments Council, and The Clearing House to help credit unions discover more about the specific benefits of real-time payments and how to get connected to real-time payments opportunities.

Though the U.S. financial industry is still working toward an ubiquitous real-time payments market, we believe it's important to remain at the forefront of this payments shift, which is constantly being pushed forward by fintech providers, government players, everyday consumers, and now has been accelerated by the pandemic as digital channels have become ever more necessary.

Focusing on meaningful change

Importantly, the past year also led us to proactively support meaningful change within our organization, industry and society for greater understanding related to the issues of diversity, equity and inclusion (DEI). We were proud to donate $10,000 to the African American Credit Union Coalition (AACUC) in support of their "Commitment to Change" initiative. Further, significant education and training was provided to the executive and human resources teams so we could formulate an impactful plan for our organization to support DEI initiatives moving forward. The first step was adopting a DEI- specific business objective, which includes "Achieving and sustaining a culture of inclusion: Enable all staff members to not just survive, but to thrive; to build strong relationships where every individual feels safe to be their best authentic self, and where differences are valued and encouraged." Secondly, we will be rolling out company-wide education opportunities in 2021. With an increased focus toward education, self-awareness, and proactive involvement, we hope that ideas will continue to surface as we dialogue with our staff and others in our industry and local communities so we can continue to support all individuals and implement changes that make a meaningful difference.

Expressing our gratitude

Though many things changed in our world last year and will continue to change, what will never waver is our commitment to serving credit unions and our gratitude for our members' continued support. On behalf of everyone at Corporate One, including our dedicated board of directors, thank you for continuing to support your corporate partner and our Corporate One family.

Sincerely,

Melissa A. Ashley
CEO/President

R. Lee Powell, Jr.
Chairman
CEO/President, Desco FCU

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Summary

Although we could never have predicted that 2020 would feature a global pandemic along with devastating impacts to the economy as a result of government shutdowns, Corporate One's performance last year still reflects strong execution toward our strategic initiatives despite the challenges and economic difficulties faced by our members, peers, communities, and the country. In 2020, we reported net income of $16.5 million, a 23 percent increase from the prior year and our second highest year of earnings. After paying our Partner members $2.3 million in Perpetual Contributed Capital (PCC) dividends, we added $14.2 million to retained earnings, ending the year at $115.1 million. This increase in retained earnings resulted in total regulatory capital of $331.2 million, and all capital ratios remain above well-capitalized levels as defined by the NCUA Rules and Regulations, Part 704.

Net interest income for 2020 declined approximately $4.5 million from 2019. This decline is a result of net interest margin compression—62 basis points in 2020 compared to 113 basis points in 2019. This decrease in net interest income was partially offset by increased income as a result of a nearly 60 percent increase in interest-earning assets. This increase is a result of significant deposit and asset growth as members prepared for financial uncertainties and saved money as a result of the pandemic.

Non-interest income was $14.6 million, up approximately $1.0 million, or seven percent, from the prior year. Revenue from our wholly owned credit union service organizations (CUSOs) was the primary driver of this increase. In addition, we helped credit unions invest their excess liquidity, largely due to the pandemic, and as a result, the commissions we earn through our brokerage services increased approximately 14 percent as compared to the prior year.

Operating expenses decreased approximately $440,000, or one percent, from 2019 to $37.9 million in 2020. The decrease in expenses in 2020 were primarily a result of an approximate 37 percent reduction in travel and business development expenses due to the pandemic compared to the prior year. This decrease was partially offset by staff costs, which were up $1.0 million or four percent, primarily reflecting increased salaries and group health insurance.

In 2020, we recognized approximately $7.0 million in net gain on sales of securities as compared to $871,000 in 2019. In 2020, as part of our normal course of business, we sold securities to reposition our investment portfolio into other classes of securities. Most of the securities sold during 2020 were private label mortgage-backed securities and were acquired through our 2012 merger with another corporate, and many were deemed purchase credit credit impaired at acquisition.

COVID-19

The COVID-19 pandemic not only affected our daily lives but also negatively impacted the global economy. When the World Health Organization declared COVID-19 a global health pandemic in March 2020, our world changed overnight. Internally, our staff quickly transitioned from serving our members from our physical offices to work-from-home environments. We were able to react quickly because of the commitment to our members, the flexibility of our workforce, and our robust business continuity plans. Externally, the stock market plummeted, and economic activity slowed dramatically. In response to the economic fallout of forced shutdowns, the government passed a monumental stimulus bill, and the Federal Reserve Bank (FRB) dramatically cut rates, resulting in the overnight rate dropping from 1.50- 1.75 percent to its current range of 0-.25 percent. In addition to managing through the low interest-rate environment, our deposits almost doubled overnight as a result of the government stimulus, which injected massive amounts of liquidity into the economy. The drastic increase in our asset size resulted in a decrease to our regulatory capital ratios. As of December 31, 2020, we remain well capitalized; however, our regulatory capital ratios have decreased from prior year.

Through the turmoil of 2020, we continued to deliver on our mission of helping credit unions succeed and being a supportive, strategic partner for them so they can remain relevant and competitive financial partners to their own members. As the global race for faster and instant payments presses forward, and as a long-standing credit union payments partner, the goal of Corporate One's faster payments strategic plan is to enable access and create opportunities for credit unions to take advantage of real-time payments. In 2020, both Corporate One and our wholly owned CUSO, Sherpa Technologies, LLC (Sherpa) achieved significant milestones in our respective strategic initiatives on faster payments. Corporate One became the first corporate credit union certified as a participant on The Clearing House's (TCH) RTP® network, and Sherpa became the first CUSO and non-core third-party service provider (TPSP) certified by the network. Sherpa's offering represents an open payment platform and core independent RTP network connectivity method for the credit union industry. As a participating institution on the network that can send and receive transactions, Corporate One will soon offer credit unions a solution to use the RTP network for payments on their own accounts. Moreover, with Sherpa as our TPSP, last year Corporate One became a certified Funding Agent provider for the RTP network, which enables us to be an easy and efficient outsourcing option for the settlement and funding requirements for real-time payment transactions on the network.

Additionally, Corporate One has been selected to participate in the pilot program for the Federal Reserve Banks' upcoming instant payments offering, the FedNow℠ Service. As a participant in this pilot program, Corporate One and other financial institutions and processors will help shape the FedNow Service's features and functions, provide input into the overall user experience, and ensure readiness for testing. This is an exciting development for Corporate One because, as a long-standing credit union payments partner, being a participant in this important program aligns with our real-time payments strategic goal of enabling future access and creating opportunities for credit unions to take advantage of real-time payments.

Digital transformation efforts and digital channels have become increasingly important given not only the near-term and long-term impact of the pandemic but also because of the declining occurrences of in-person engagement and an increasing level of digital engagement from large financial institutions and fintech providers. Fortunately, Sherpa is well-positioned to continue to pioneer digital leadership by helping credit unions navigate digital transformation and providing delightful member experiences, including faster/real-time payment connections and solutions. In addition to becoming the first CUSO and non-core TPSP certified by the RTP network, in 2020 Sherpa launched its first digital loan payments solution developed as a result of its Innovation Council collaboration. This solution enables greater payment flexibility and deepens relationships with loan members.

Our other wholly owned CUSOs have also worked to support credit unions during these uncertain times. Lucro Commercial Solutions, LLC (Lucro) provided a digital solution that allowed credit unions and community lenders to cost-effectively originate small business loans by allowing their clients to participate in the SBA Paycheck Protection Program (PPP) provided through the government stimulus program. In addition, as credit unions' balance sheets grew dramatically during 2020 as a result of the government stimulus program, Accolade Investment Advisory, LLC (Accolade), was able to advise their clients on investing strategies that best supported their needs.

We believe that Corporate One and our wholly owned CUSOs enter 2021 with strong momentum, and we are positioned to advance our strategic initiatives and long-term financial performance through investments in technology, digital innovation, and people.

DISCUSSION ON STATEMENTS OF INCOME

Net Interest Income/Average Balance Sheet

Our primary source of revenue is net interest income, which is the difference between interest income from earning assets (primarily debt securities, cash, other short-term investments and member loans), and interest expense of funding sources (primarily interest-bearing deposits and borrowings). Earning asset balances and related funding sources, as well as changes in the levels of interest rates, impact net interest income. The difference between the average yield on earning assets and the average rate paid for interest-bearing liabilities is the net interest spread. In addition, non-interest-bearing sources of funds, such as accounts payable, accumulated other comprehensive income, and retained earnings, also support earning assets. The impact of these sources of funds is captured in the net interest margin, which is calculated as net interest income divided by average interest earning assets.

In 2020, net interest income was $32.7 million, which is a decrease of $4.5 million from 2019. The decrease in our net interest income was a result of a compressed net interest margin. At December 31, 2020, approximately 88 percent of the par value amount, or $3.73 billion, of Corporate One's securities, with a fair market value of $3.75 billion, were variable-rate securities, the majority of which had interest rates that reset daily, monthly, or quarterly, based upon either Fed Funds Daily, Overnight SOFR, LIBOR or Prime. With the dramatic rate cuts in March 2020, most of our assets repriced down; however, no change occurred on a portion of our liabilities, including those non-interest-bearing liabilities, resulting in a significantly compressed margin. Partially offsetting the effect of this significant margin compression was the increase in deposits over 2019. Our 2020 average balances were approximately $2.0 billion greater than the average balances of 2019. To keep the economy afloat during the pandemic and to protect Americans from the impact of shutting the economy down, the federal government's response to the crisis was passing the CARES Act that resulted in a $2.0 trillion stimulus package. The massive amount of liquidity that was injected into the economy by both the Federal Reserve and U.S. Treasury caused our deposits to almost double over night.

Table One provides more information on the composition of interest-earning assets, interest- and dividend-bearing liabilities and members' share accounts, and their weighted average rates.

Table One: Components of Net Interest Income (Dollar amounts are in thousands)

	2020			2019		
	Average Balance	Interest or Dividends	Average Rate	Average Balance	Interest or Dividends	Average Rate
Interest-Earning Assets:						
Cash and cash equivalents	$ 1,270,695	$ 4,698	0.37%	$ 947,973	$ 20,061	2.12%
Other short-term investments	300,720	3,199	1.06%	139,300	3,134	2.25%
Investment in Financial Institutions	6,531	76	1.16%	3,718	57	1.53%
Loans	55,480	927	1.67%	68,130	2,108	3.09%
Securities	3,436,682	36,263	1.06%	1,998,928	60,014	3.00%
Other investments	183,660	2,509	1.37%	137,739	4,289	3.11%
TOTAL INTEREST-EARNING ASSETS	**$ 5,253,768**	**$ 47,672**	**0.91%**	**$ 3,295,788**	**$ 89,663**	**2.72%**
Interest- and Dividend-Bearing Liabilities and Members' Share Accounts:						
Overnight shares	$ 4,728,679	$ 11,327	0.24%	$ 2,682,984	$ 44,369	1.65%
Term shares	246,359	3,594	1.46%	315,349	7,374	2.34%
Other borrowings	1,785	17	0.95%	27,460	697	2.54%
TOTAL INTEREST- AND DIVIDEND-BEARING LIABILITIES AND MEMBERS' SHARE ACCOUNTS	**$ 4,976,823**	14,938	0.30%	**$ 3,025,793**	52,440	1.73%
NET INTEREST INCOME		**$ 32,734**			**$ 37,223**	
NET INTEREST MARGIN			**0.62%**			**1.13%**

Table Two provides a rate and volume analysis that further illustrates changes between 2020 and 2019 in the components of net interest income attributable to dollar volume (changes in volume multiplied by prior year's rate), interest and dividend rates (changes in rates multiplied by the prior year's volume), and the combined impact of dollar volume and interest and dividend rates (changes in volume multiplied by changes in rate).

Table Two: Volume and Rate Variance Analysis (Dollar amounts are in thousands)

	2020 vs 2019			
	Volume	**Rate**	**Volume and Rate**	**Total**
Interest-Earning Assets:				
Cash and cash equivalents	$ 6,829	$ (16,556)	$ (5,636)	$ (15,363)
Investment in Financial Institutions	43	(14)	(10)	19
Other short-term investments	3,632	(1,652)	(1,915)	65
Loans	(391)	(970)	180	(1,181)
Debt securities	40,943	(37,644)	(27,052)	(23,753)
Other investments	1,430	(2,407)	(803)	(1,780)
TOTAL INTEREST-EARNING ASSETS	52,486	(59,243)	(35,236)	(41,993)
Interest- and Dividend-Bearing Liabilities and Members' Share Accounts:				
Overnight shares	33,830	(37,942)	(28,930)	(33,042)
Term shares	(1,613)	(2,774)	607	(3,780)
Other borrowings	(652)	(435)	407	(680)
TOTAL INTEREST- AND DIVIDEND-BEARING LIABILITIES AND MEMBERS' SHARE ACCOUNTS	31,565	(41,151)	(27,916)	(37,502)
INCREASE (DECREASE) IN NET INTEREST INCOME	$ 20,921	$ (18,092)	$ (7,320)	$ (4,491)

Non-interest Income

Non-interest income of $14.6 million increased almost $1.0 million from our 2019 levels of $13.7 million. The growth in non-interest income over 2019 is primarily due to increased revenue from our wholly owned CUSOs, Lucro, Accolade and Sherpa, all of which saw more credit unions utilizing their services. In addition, as liquidity grew in the credit union network, our members looked to invest their excess liquidity in instruments outside of cash, and, as such, the commission income we earn on the sales of securities and brokered certificates of deposits to members increased over 2019.

This increase in non-interest income was partially offset by a shift in our business model related to processing share drafts, which occurred mid-year 2019. As the financial markets continue to migrate toward providing digital and faster payment solutions to their members, the volume of share drafts continues to decline. We understand the importance in continuing to offer these critical processing services to our members and therefore have transitioned from a business model, which supports this product through fixed operational costs, to an outsourced model. We provide these services to our members through the CUSO TranzCapture, LLC, of which we are a partial owner. Using a variable costing method to support this product line will result in lower costs as share draft volumes decrease. Compared to 2019, this change in our business model results in increased direct variable costs, which reduces our non-interest income but results in lower operating expenses related to share draft processing.

Operating Expense

Operating expenses were $37.9 million in 2020, a one percent decrease from 2019. This decrease is primarily due to reduced member-facing activities as a result of the travel restrictions put into place in an effort to combat the effects of the pandemic. Partially offsetting these lower expenses were increases in salaries and benefits. A portion of the increase in salaries and benefits expense is due to merit adjustments, and the remaining increase is due to the addition of higher-salaried positions needed to support the business as we transition into providing enhanced digital experiences for our members. It is critical that credit unions are ready to embrace the rapidly changing fintech environment, and we continue to work diligently to provide them with valuable insights and solutions so they can more readily do so. Not only are we enhancing our digital/faster payment solutions for members through our CUSO Sherpa, but we are also investing in our member-facing applications to provide our members the same superior digital experience when they work with us. It is our vision to be a pioneer in payment services (both digital and traditional) for the benefit of our members. In addition, we recognized an increase of approximately $700,000 in intangible amortization expense in 2020 as compared to 2019. Annually, we test our intangibles for potential impairment, and, due to the current and forecasted low interest-rate environment, the value of the core deposit intangible recorded as part of our 2012 merger with another corporate was lower than the carrying value. As such, we recorded approximately $1.0 million in impairment charges in 2020. This intangible will continue to be amortized at the reduced carrying value and will be fully amortized by June 2024.

In 2020, as part of our normal course of business, we sold securities to reposition our investment portfolio into other classes of securities. Most of these securities sales were private label mortgage-backed securities and were acquired through our 2012 merger with another corporate, and many were deemed purchase credit impaired at acquisition. We recorded net gains on sales of securities during 2020 of $7.0 million.

Table Three provides selected financial information for the last five years.

Table Three: Selected Financial Information (Dollar amounts are in thousands)

	For the year ending December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
Net interest income	$ 32,734	$ 37,223	$ 34,708	$ 30,595	$ 29,255
Non-interest income	14,612	13,657	13,415	13,328	13,868
Total operating expenses	37,911	38,350	37,007	35,066	34,465
EARNINGS BEFORE NET GAIN ON INVESTMENTS AND OTHER ITEMS	9,435	12,530	11,116	8,857	8,658
Other-than-temporary impairment losses on securities				(69)	(171)
Net gain on other investments	7,037	871	2,131	2,261	1,169
Other items*				2,072	
NET INCOME	**$ 16,472**	**$ 13,401**	**$ 13,247**	**$ 13,121**	**$ 9,656**

*Gain on sale of product line

Regulatory Capital Position

On October 20, 2011, major revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, became effective when published in the Federal Register. The major revisions involved corporate credit union capital, investments, asset/ liability management, governance, and CUSO activities. The regulation established a new capital framework, including risk-based capital requirements; imposed new prompt corrective action requirements; placed various new limits on corporate investments; imposed new asset/liability management controls; amended some corporate governance provisions; and limited a corporate CUSO to categories of services pre-approved by the NCUA. New capital instruments were defined, a process for phasing out Paid-in Capital (PIC) and Membership Capital Shares (MCS) was set forth, and new capital ratio requirements were established. In 2017, the NCUA issued amendments to Regulation Part 704. Specifically, the amendments established a retained earnings ratio requirement and revised the definitions of retained earnings and Tier 1 capital.

Our total regulatory capital increased $13.9 million since December 31, 2019, to $331.2 million at December 31, 2020. The increase in capital is the result of our strong financial performance, which resulted in our retained earnings growing to over $115.0 million.

Table Four provides the components of Total and Tier 1 capital for the last five years.

Table Four: Regulatory Capital (Dollar amounts are in thousands)

	For the year ended December 31,				
	2020	**2019**	**2018**	**2017**	**2016**
Retained earnings	$ 115,092	$ 100,905	$ 91,809	$ 81,599	$ 69,988
PIC	20	20	20	20	20
PCC	223,365	223,365	221,249	219,442	219,174
TOTAL REGULATORY CAPITAL ACCOUNT BALANCES	338,447	324,290	313,078	301,061	289,182
Plus retained earnings of acquired entity*					869
Less CUSOs (equity and cost)	(7,236)	(6,955)	(6,688)	(6,238)	(6,023)
TOTAL REGULATORY CAPITAL	$ 331,241	$ 317,335	$ 306,390	$ 294,823	$ 284,028
Unamortized PIC	(20)	(20)	(20)	(20)	(20)
Excluded PCC**				(43,404)	(73,763)
TIER 1 CAPITAL	$ 331,221	$ 317,315	$ 306,370	$ 251,399	$ 210,245

*Effective December 2017, only GAAP equity is included in regulatory capital.
**As per the regulation beginning in October 2016, all corporate credit unions must exclude the portion of PCC equal to the amount of PCC less retained earnings exceeding 2 percent of MDANA. In 2017, the regulation changed and if a corporate credit union's retained earnings ratio is less than 2.5 percent, they must exclude the portion of PCC equal to the amount of PCC from federally insured credit unions less retained earnings exceeding 2 percent of MDANA.

Table Five summarizes Corporate One's regulatory capital ratios as of December 31, 2020, and 2019.

Table Five: Regulatory Capital Ratios (Dollar amounts are in thousands)

	December 31,	
	2020	**2019**
Retained earnings ratio	2.16%	2.99%
Leverage ratio	6.22%	9.44%
Tier 1 risk-based capital ratio	17.55%	28.88%
Total risk-based capital ratio	17.56%	28.88%
MDANA*	$ 5,336	$ 3,372
MDANRA**	$ 1,887	$ 1,100
Adjusted MDANA***	$ 5,329	$ 3,366

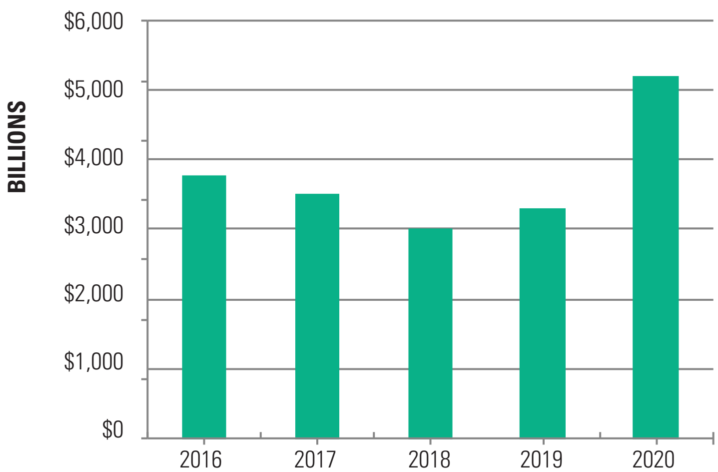
*Moving Daily Average Net Assets
**Moving Daily Average Net Risk-Weighted Assets
***Adjusted Moving Daily Average Net Assets. NCUA Rules and Regulations §704.2 allows for the deductions from Tier 1 capital to also be deducted from MDANA for use in the Leverage ratio calculation.

Table Six summarizes the NCUA requirements for the various ratios:

	Regulatory Capital Minimums	
	Well capitalized	Adequately capitalized
Leverage ratio	5.00%	4.00%
Tier 1 risk-based capital ratio	6.00%	4.00%
Total risk-based capital ratio	10.00%	8.00%

At the end of 2020, all our capital ratios exceed NCUA well-capitalized levels. The decrease in our capital ratios year over year is purely a function of our increased MDANA and MDANRA over 2019 levels. Our capital ratios are calculated using 12-month rolling average assets, and as the recipient of an influx in member deposits during 2020, our increased asset size resulted in a drop to our capital ratios, which is expected to continue as the balances remain at elevated levels. Figure One below illustrates the increase in our MDANA over the last five years.

Figure One: Trended data on MDANA (Dollar amounts are in billions)



To help manage deposit levels, Corporate One became an agent for the Federal Reserve Excess Balance Account (EBA) sweep accounts. The EBA sweep account functionality permits Corporate One to sweep excess balances to the Federal Reserve as opposed to maintaining those balances on our balance sheet, providing us the flexibility needed to effectively manage the size of our balance sheet, while allowing us to continue to have a place for our members to keep their excess liquidity and not adversely affect our ability to remain adequately capitalized as defined by the NCUA's Rules and Regulations, Part 704. The growth in balances is coming from our members as they experience deposit growth and not from Corporate One aggressively seeking new deposits or leveraging our balance sheet.

ENTERPRISE-WIDE RISK MANAGEMENT

Corporate One is committed to managing the risks associated with our business activities. We feel so strongly about managing risk that more than 10 years ago, we embarked on an initiative to deploy enterprise risk management (ERM) throughout our entire organization. We believe that ERM is critical not only to managing our risks but also to maximizing our value to our members. To that end, Corporate One has adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework for ERM as the structure for the governance of risk. Corporate One utilizes a core process risk assessment methodology to identify, categorize, and mitigate its risks.

We have established an ERM Committee comprised of members of our Board of Directors, our Supervisory Committee, and our senior management. The ERM Committee is responsible for reviewing completed risk assessments and coordinating, in conjunction with the Supervisory Committee, the testing of controls over critical processes. These committees are also responsible for reporting the residual risks of Corporate One's activities to the Board of Directors. The risks an organization takes should be balanced by the rewards. The Board of Directors ultimately uses the information from Corporate One's ERM Committee to determine if those residual risks are balanced by rewards or if the risks are too great and should be mitigated.

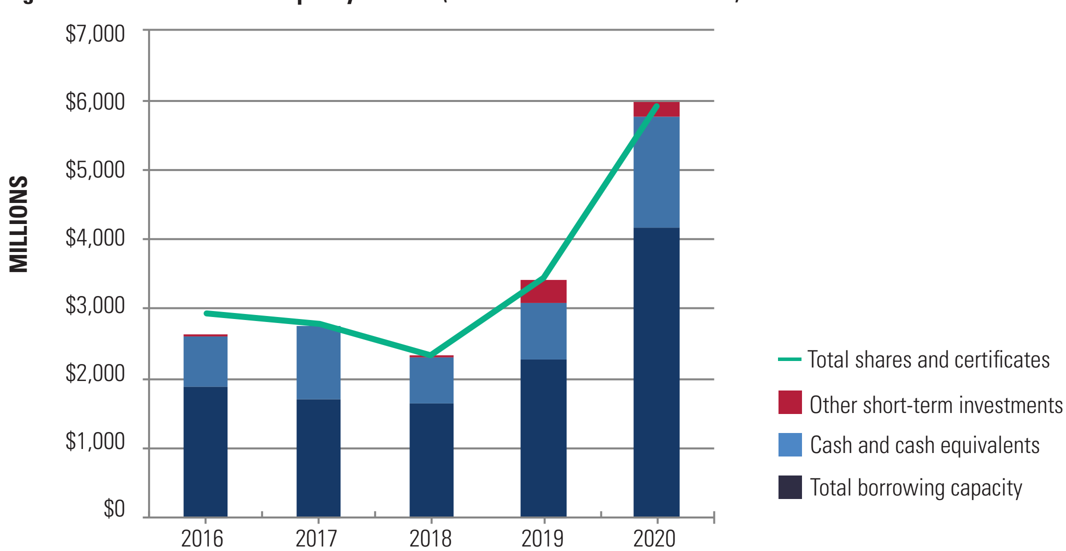
Liquidity Risk Mangement

Liquidity risk is one of the most important risks we manage. With every deposit we accept, we understand that we need to appropriately manage our liquidity to ensure our members have access to those funds when needed. Accordingly, we have certain daily liquidity management strategies we employ, as well as more long-term, overarching liquidity strategies.

We constantly monitor our members' demands on our liquidity and evaluate the adequacy of our liquidity sources. During 2020, the liquidity levels at credit unions were high, so we continued to keep a portion of our assets very liquid in order to meet day-to-day member liquidity requirements should the need arise. In fact, as of December 31, 2020, we had $1.6 billion in cash and cash equivalents, $222.9 million in other short-term investments, and approximately $4.2 billion in remaining borrowing capacity (total existing lines less borrowings outstanding). This is significant given our total balance sheet of $6.3 billion and settlement and regular shares of $5.7 billion.

Figure Two shows our available liquidity as compared to our total shares and certificates over the last five years.

Figure Two: Trended data on liquidity sources (Dollar amounts are in millions)



We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union may deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of December 31, 2020, our single largest depositor represented only eight percent of our total member shares.

Further, we strive to buy securities with readily determinable market values that may be sold or borrowed against to generate liquidity. Should we need to generate liquidity, we have diversified sources of funds, and we test these sources often to ensure availability. As noted earlier, Corporate One’s borrowing capacity at December 31, 2020, was approximately $4.2 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $2.3 billion. This line of credit is secured by certain investments held in safekeeping at the FHLB. In addition, we maintain a reverse repurchase agreement with another party, totaling $375.0 million. This agreement is secured using certain of our asset-backed securities as collateral, and we have recently tested this source to ensure that it represents a viable liquidity source. Also, we maintain $230.0 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing.

To further strengthen our liquidity position, we have elected to voluntarily hold Reg D reserves in order to gain access to the Federal Reserve Discount Window. Previously, as a bankers’ bank, we were unable to access the Federal Reserve Discount Window. By changing our status with the Federal Reserve Bank, we have the potential to access the ultimate backstop for liquidity.

We have been granted primary credit with the Federal Reserve Bank. Primary credit is available to generally sound deposit institutions on a very short-term basis, typically overnight, at a rate above the Federal Open Market Committee’s (FOMC) target rate for federal funds. All extensions of credit must be secured to the satisfaction of the lending Federal Reserve Bank by collateral that is acceptable for that purpose. Corporate One’s borrowing capacity at the Federal Reserve Bank was approximately $1.3 billion at December 31, 2020.

Although Corporate One’s on-balance-sheet loan portfolio is small, we have total outstanding advised lines and letter of credit commitments to members of approximately $3.9 billion at December 31, 2020. All outstanding line-of-credit commitments are collateralized by specific or general pledges of assets by members. Commitments to extend credit to members remain effective if 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 is expected to terminate without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Credit Risk Management

Another material risk we manage is credit risk. One way we mitigate credit risk is by actively managing our balance sheet to ensure that it is well diversified. We also perform extensive pre-purchase and ongoing credit analysis and only purchase investments of high-credit quality as determined by our credit risk department. Our internal assessments of credit include, among other things, reviews of the issuer's financial stability, the trust structure, underlying collateral performance, credit enhancements, and credit ratings as assigned by Nationally Recognized Statistical Rating Organizations (NRSROs). Corporate One's portfolio diversification as of December 31, 2020, is shown in Figure Three.

Figure Three (a): Diversification of interest-earning assets as of December 31, 2020

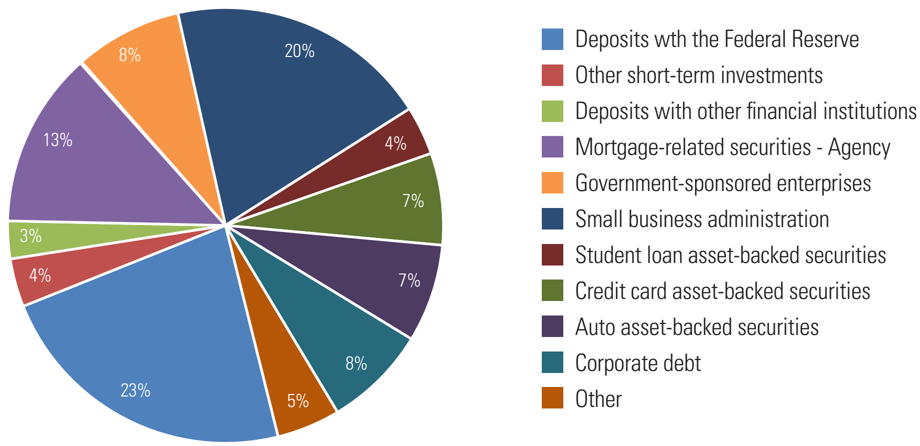
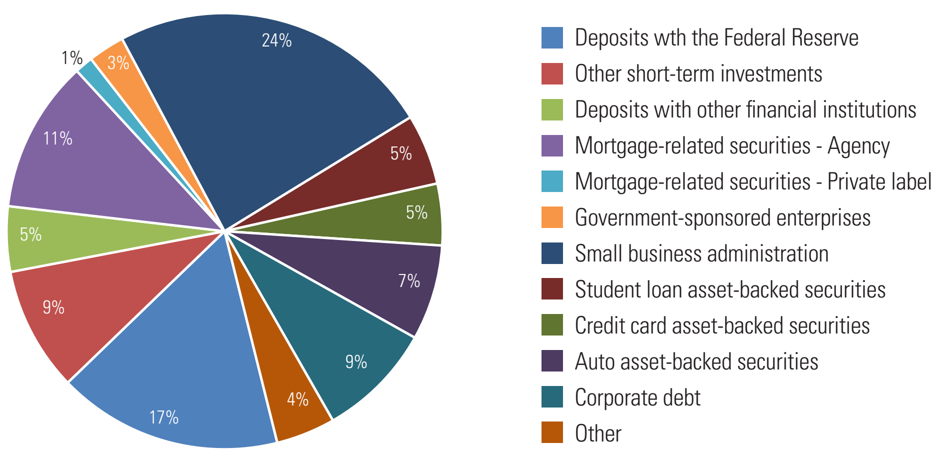


Figure Three (b): Diversification of interest-earning assets as of December 31, 2019



As shown in Figures Three (a) and (b), our portfolio remains well diversified. Even as our investable balances increased 68 percent over 2019, we continued to focus on investing in high-credit quality securities. At December 31, 2020, 23 percent of the amortized cost of our interest-earning assets is in cash held at the Federal Reserve Bank with another 73 percent of our portfolio invested in cash and investments held at other financial institutions, in other short-term investments, and in agencies and securities rated "A" or higher by NRSROs. Corporate One does not have any investments in structured investment vehicles (SIVs), collateralized debt obligations (CDOs) or commercial, mortgage-backed securities. During 2020, we chose to divest of nearly all our private label mortgage-backed securities and sold 40 securities in that sector with a current par at the time of sale of $52.1 million. The net gain on the sales of these securities was $6.8 million. Of the securities sold, one was previously deemed other than temporarily impaired security, and 14 were purchased credit impaired securities. As of December 31, 2020, our portfolio of private label mortgage-backed securities has dwindled to 11 securities with a fair value of $7.9 million compared to 56 securities with a fair value of $50.2 million at December 31, 2019.

Market Risk

Because we invest in securities, we are also exposed to market risk due to liquidity and credit spreads. Market risk is realized should it become necessary to liquidate a position during a down period in the cycle. We typically classify our securities as available-for-sale, which allows us the flexibility to sell securities should we require liquidity, find value in other market sectors, or come upon other opportunities. Portfolio diversification helps mitigate market risk, and the diversity in our portfolio allows us to execute trades in various sectors when the need or opportunity arises. During 2020, we sold $203.7 million of securities realizing a net gain of $7.0 million. These sales were a result of repositioning our portfolio into other market sectors. Overall, the market values of our securities held throughout 2020, ending the year in a net unrealized gain (AOCI) position of $17.9 million.

Interest Rate Risk Management

Our primary interest rate risk-measurement tool is a Net Economic Value (NEV) test. NEV is defined as the fair value of assets less the fair value of liabilities. The purpose of the NEV test is to determine whether Corporate One has sufficient capital to absorb potential changes to the market value of our assets and liabilities given sudden changes in interest rates.

NEV scenarios are performed monthly, testing for sudden and sustained increases or decreases in interest rates of 100, 200, and 300 basis points. A summary of Corporate One's NEV calculation as of December 31, 2020, and 2019 is shown in Table Seven.

Table Seven: Net Economic Value Calculation (Dollar amounts are in thousands)

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of December 31, 2020*				
300 bps rise in rates	$ 314,564	5.03%	$ (41,760)	-11.72%
Base scenario	$ 356,324	5.66%		
200 bps fall in rates	$ 344,153	5.48%	$ (12,171)	-3.42%
As of December 31, 2019*				
300 bps rise in rates	$ 321,091	8.51%	$ (13,644)	-4.08%
Base scenario	$ 334,735	8.83%		
200 bps fall in rates	$ 339,450	8.93%	$ 4,715	1.41%

* 300 bps decline did not apply in the interest rate environment.

The increase in our NEV from December 31, 2019, is primarily due to an increase in the fair values of the securities we hold and net income. The NEV ratio, which is a function of both the NEV and the size of our balance sheet, is measured using period-end balances. Corporate One maintains an NEV ratio well above the minimum two percent NEV ratio required by the NCUA.

To mitigate interest-rate risk, when members deposit funds with us, we can invest those funds in a variety of financial instruments that closely match the repricing characteristics of the underlying deposit, resulting in minimal mismatch. As of December 31, 2020, 96 percent of our liabilities are overnight shares that reprice daily while only four percent are fixed-rate term deposits. Even the term deposits are short term in nature with the majority maturing in one year or less. As of December 31, 2020, 29 percent of our assets were held in cash, which reprice daily, and other short-term investments. The rest of our assets were mostly held in debt securities, such as corporate debt, asset-backed, mortgage-related, and small business administration securities. At year-end 2020, 88 percent of the par value amount of our securities were variable-rate securities and reset either monthly or quarterly, predominantly based upon the Fed Funds Daily, LIBOR, Overnight SOFR, and Prime indices. Of these variable-rate securities, 13 percent had interest rate caps that were fixed at the time of issuance, and the caps range from 5.4 percent to 16 percent.

As a result of the way we manage our balance sheet, when interest rates move, the value of our floating-rate assets and liabilities does not fluctuate significantly. Movements in interest rates do affect our fixed-rate securities and deposits; however, these represent a very modest portion of our balance sheet. Additionally, the change in value of the fixed-rate deposits generally helps offset the change in value of the fixed-rate securities that occur as a result of changes in interest rates.

Corporate One's interest-rate risk remains minimal, demonstrated by the low percentage in NEV change between the base scenario and a 300 basis points rise-in-rates scenario. This change remains low due to the structure of our balance sheet. It is also well within the maximum decline of 20 percent required by the NCUA.

With the uncertainty surrounding the future of the LIBOR index, we are actively working to address its eventual cessation. We are managing our existing LIBOR-indexed exposures by ceasing to purchase any LIBOR-indexed security without fallback language. In addition, we have identified any LIBOR-indexed securities we hold that do not have appropriate fallback language in their prospectuses, and we have stress-tested those securities. We have quantified the effect of holding those identified securities on our NEV calculations, and based on our stress tests, we would remain in compliance with our regulatory requirements. In addition, we applied for and received Part III Derivative Authority from the NCUA. This authority will provide another tool to manage our interest-rate risk to ensure we will be able to comply with our regulatory NEV requirements without the need to sell securities at inopportune times.

Operational Risk Management

Corporate One provides a variety of services to our members and is reliant upon our employees and systems to provide these services. Accordingly, Corporate One is exposed to a variety of operational risks, including errors and omissions, business interruptions, improper procedures, third-party performance failures, and cybersecurity threats. These risks are less direct than credit and interest-rate risk, but managing them is critical, particularly in a rapidly changing environment. In the event of a breakdown or improper operation of systems or improper procedures, we could suffer financial loss and other damage, including harm to our reputation.

We continuously strive to strengthen our system of internal controls to ensure compliance with laws, rules, and regulations, and to improve the oversight of our operational risk. We developed comprehensive policies and procedures designed to provide a sound and well-controlled operational environment. All critical vendor relationships are reviewed on an annual basis, and a financial analysis of our major business partners is completed. Corporate One also has internal auditors on staff who perform periodic internal audit procedures on the internal controls of Corporate One. The audit staff report on such procedures to Corporate One's Supervisory and ERM Committees and Board of Directors. Additionally, business continuity plans exist and are tested for critical systems, and redundancies are built into the systems as deemed appropriate.

Corporate One operates within the context of a comprehensive, written Information Security Program that includes administrative, technical, and physical safeguards. The objective is to ensure that the responsibilities under NCUA Rules and Regulations, Part 748, are fully met in the establishment and function of the Information Security Program. This Program incorporates Corporate One's information technology framework to ensure the security goals are addressed and met. We are committed to protecting our employees, partners, members, and ourselves from damaging acts that are intentional or unintentional.

Corporate One adheres to a strategy of in-depth defense, a series of defensive mechanisms layered in order to protect our data and information. If one mechanism fails, another takes over immediately to thwart an attack. This multi-layered approach with intentional redundancies increases our overall information security stance and addresses many different attack vectors. In addition, we have implemented current best practices to prevent attackers from gaining access to our network and systems. These include:

- Regular security awareness and on-going training for our employees
- Regular network and vulnerability scans
- Solid and timely patch management (including third-party software)
- Disabling unnecessary and vulnerable services and following system hardening guidance
- Enforcement of strong password requirements and implementation of two-factor authentication
- Centralized security logging and alerting
- Use of both local and cloud-based data loss prevention tools
- Regular third-party security assessments and penetration tests of our computing environment
- Regular disaster recovery and business continuity testing

SUPERVISORY COMMITTEE REPORT

Corporate One's 2020 financial statements, prepared by management, were audited in accordance with auditing standards generally accepted in the United States of America by Crowe LLP, independent auditors. Crowe's report on Corporate One's financial statements is included within this annual report.

In addition to the annual audit, Corporate One employs internal audit staff who perform internal audits of select processes, controls and systems of Corporate One, and report quarterly on such procedures to the Supervisory Committee.

Based on the annual audit and internal audit procedures, the Supervisory Committee is confident that Corporate One is subjected to a thorough and professional examination process.

Phil Buell,
Board Liaison,
Superior CU

Dustin Cuttriss,
Beacon CU

Donna Johnson,
Chair,
Coastline FCU

Kathy Martin,
Directions CU

Mark Overfield,
Fireland FCU

MANAGEMENT REPORT

Statement of Management's Responsibilities
The management of Corporate One Federal Credit Union (Corporate One) is responsible for preparing Corporate One's annual financial statements in accordance with generally accepted accounting principles, for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA-5310 Corporate Credit Union Call Report, and for complying with the Federal laws and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure.

Management's Assessment of Compliance with Safety and Soundness Laws and Regulations
The management of Corporate One has assessed Corporate One's compliance with the Federal and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 2020. Based upon its assessment, management has concluded that Corporate One complied with the Federal laws and, if applicable, State laws and regulations pertaining to affiliate transactions, legal lending limits, loans to insiders, restrictions on capital and share dividends and regulatory reporting that meets full and fair disclosure during the fiscal year that ended on December 31, 2020.

Management's Assessment of Internal Control Over Financial Reporting
Corporate One's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes (i.e., NCUA-5310 Corporate Credit Union Call Report). Corporate One'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 Corporate One; (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 for regulatory reporting purposes, and that receipts and expenditures of Corporate One are being made only in accordance with authorizations of management and directors of Corporate One; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of Corporate One'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 evaluation 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 and procedures may deteriorate. Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override.

Management assessed the effectiveness of Corporate One's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA-5310 Corporate Credit Union Call Report, as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Regulation 704.15 of the National Credit Union Administration (NCUA).

Based upon its assessment, management has concluded that, as of December 31, 2020, Corporate One's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA-5310 Corporate Credit Union Call Report, is effective based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Regulation 704.15 of the National Credit Union Administration (NCUA).

The Credit Union's effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the NCUA 5310 – Corporate Credit Union Call Report, as of December 31, 2020, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated March 23, 2021.

Melissa A. Ashley

Melissa A. Ashley
President, Chief Executive Officer

Denise Brown
Executive Vice President, Chief Financial Officer

Columbus, Ohio
March 23, 2021

INDEPENDENT AUDITOR'S REPORT

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

Report on Internal Control Over Financial Reporting
We have audited Corporate One Federal Credit Union's ("Corporate One") internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Regulation 704.15 of the National Credit Union Administration (NCUA).

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

Auditor's Responsibility
Our responsibility is to express an opinion on the entity's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Regulation 704.15 of the National Credit Union Administration (NCUA), our audit of Corporate One's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the NCUA 5310 - Corporate Credit Union Call Report. 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.

Opinion

In our opinion, Corporate One Federal Credit Union maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control—Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Regulation 704.15 of the National Credit Union Administration (NCUA).

Other Matter

This report is intended solely for the information and use of management, the Supervisory Committee, Board of Directors, others within the organization, and the National Credit Union Administration and is not intended to be and should not be used by anyone other than these specified parties.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the 2020 consolidated financial statements of Corporate One Federal Credit Union, and our report dated March 23, 2021, expressed an unmodified opinion.

Crowe LLP

Crowe LLP
Columbus, Ohio
March 23, 2021

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Corporate One Federal Credit Union ("Corporate One"), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, 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.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Corporate One Federal Credit Union as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

We also have audited in accordance with auditing standards generally accepted in the United States of America, Corporate One Federal Credit Union's internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) relevant to reporting objectives for the express purpose of meeting the regulatory requirements of Regulation 704.15 of the National Credit Union Administration (NCUA) and our report dated March 23, 2021 expressed an unmodified opinion.

Crowe LLP

Crowe LLP
Columbus, Ohio
March 23, 2021

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2020	2019
ASSETS		
Cash and cash equivalents	$ 1,592,023,370	$ 796,297,846
Other short-term investments	222,878,041	341,436,615
Investments in financial institutions	68,429,660	31,205,400
Available-for-sale securities, at fair value	4,283,275,669	2,471,510,240
Loans	44,942,561	61,785,233
Accrued interest receivable	3,707,181	7,277,798
Goodwill	3,401,412	3,401,412
Intangible assets	1,844,004	4,716,511
Other assets	70,144,571	66,211,363
TOTAL ASSETS	$ 6,290,646,469	$ 3,783,842,418
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Settlement and regular shares	$ 5,712,175,174	$ 3,118,587,692
Share certificates	192,211,852	326,198,845
Dividends and interest payable	33,078	259,792
Accounts payable and other liabilities	29,856,203	6,663,499
TOTAL LIABILITIES	5,934,276,307	3,451,709,828
Members' equity:		
Perpetual contributed capital	223,365,281	223,365,281
Retained earnings	115,092,454	100,905,135
Accumulated other comprehensive income	17,912,427	7,862,174
TOTAL MEMBERS' EQUITY	356,370,162	332,132,590
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 6,290,646,469	$ 3,783,842,418

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2020	2019
Interest income:		
Investments and securities	$ 46,745,149	$ 87,554,659
Loans	927,442	2,108,442
TOTAL INTEREST INCOME	47,672,591	89,663,101
Dividend and interest expense:		
Share accounts	14,920,655	51,742,419
Other borrowings	17,486	697,161
TOTAL DIVIDEND AND INTEREST EXPENSE	14,938,141	52,439,580
NET INTEREST INCOME	32,734,450	37,223,521
NON-INTEREST INCOME	14,611,937	13,657,247
Net gain on investments:		
Net gain on sales of securities	7,036,987	870,519
TOTAL NET GAIN ON INVESTMENTS	7,036,987	870,519
Operating expenses:		
Salaries and employee benefits	24,916,801	23,860,584
Office operations and occupancy expense	7,655,199	8,415,079
Other operating expenses	2,466,166	3,907,629
Amortization of intangibles expense	2,872,507	2,166,736
TOTAL OPERATING EXPENSES	37,910,673	38,350,028
NET INCOME	$ 16,472,701	$ 13,401,259

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2020	2019
Net Income	$ 16,472,701	$ 13,401,259
Other comprehensive income:		
Change in net unrealized gain on available-for-sale securities	17,087,986	12,341,045
Unrealized loss on cashflow hedge	(746)	
Reclassification adjustment recognized in earnings for net gain from sales of securities	(7,036,987)	(870,519)
Total other comprehensive income	10,050,253	11,470,526
COMPREHENSIVE INCOME	$ 26,522,954	$ 24,871,785

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
BALANCE AT JANUARY 1, 2019	$ 221,249,122	$ 91,809,283	$ (3,608,352)	$ 309,450,053
Net Income		13,401,259		13,401,259
Other comprehensive income			11,470,526	11,470,526
Issuance of PCC	2,116,159			2,116,159
Dividends on perpetual contributed capital		(4,305,407)		(4,305,407)
BALANCE AT DECEMBER 31, 2019	223,365,281	100,905,135	7,862,174	332,132,590
Net income		16,472,701		16,472,701
Other comprehensive income			10,050,253	10,050,253
Dividends on perpetual contributed capital		(2,285,382)		(2,285,382)
BALANCE AT DECEMBER 31, 2020	$ 223,365,281	$ 115,092,454	$ 17,912,427	$ 356,370,162

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2020	2019
Cash flows from operating activities:		
Net income	$ 16,472,701	$ 13,401,259
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,309,269	1,458,494
Amortization of intangibles	2,872,507	2,166,736
Net amortization (accretion)	2,784,303	(2,347,451)
Net gain on investments	(7,036,987)	(870,519)
Net change in accrued interest receivable	3,570,617	(207,567)
Net change in dividends and interest payable	(226,714)	(93,122)
Other, net	386,859	(601,645)
NET CASH PROVIDED BY OPERATING ACTIVITIES	20,132,555	12,906,185
Cash flows from investing activities:		
Net change in investments in financial institutions	(37,224,260)	19,162,200
Available-for-sale securities:		
Sales	191,292,966	176,419,284
Maturities and principal pay downs	1,258,565,636	364,378,979
Purchases	(3,227,371,945)	(1,268,952,101)
Change in other short-term investments	118,558,574	(311,672,823)
Net change in loans	16,842,672	37,040,885
Net change in NCUSIF share insurance deposit	19,979	(28,059)
Net purchase of property and equipment	(2,405,760)	(1,601,932)
NET CASH USED IN INVESTING ACTIVITIES	(1,681,722,138)	(985,253,567)
Cash flows from financing activities:		
Net change in shares and deposits	2,459,600,489	1,097,219,670
Issuance of perpetual contributed capital		2,116,159
Dividends on perpetual contributed capital	(2,285,382)	(4,305,407)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,457,315,107	1,095,030,422
Net increase in cash and cash equivalents	795,725,524	122,683,040
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	796,297,846	673,614,806
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,592,023,370	$ 796,297,846
Supplemental disclosure:		
Dividends and interest paid	$ 17,450,238	$ 56,838,108
Due to broker	20,000,000	

See accompanying notes to consolidated financial statements.

(Table dollar amounts in thousands)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(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, digital 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 throughout the United States. Corporate One's Board of Directors is composed of executive management from Corporate One's member credit unions.

Corporate One also wholly owns three credit union service organizations (CUSOs): Lucro Commercial Solutions, LLC (Lucro), Accolade Investment Advisory, LLC (Accolade) and Sherpa Technologies, LLC (Sherpa). Lucro's purpose is to provide business lending solutions to its credit union customers. The primary source of income for Lucro is provided through fees earned for the underwriting, servicing and documenting of business loans. Lucro services loans for other credit unions which are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced by Lucro approximated $368.7 million and $254.2 million at December 31, 2020 and 2019, respectively. Accolade provides asset/liability management tools, loan analytics and investment advisory services to credit unions and Sherpa's purpose is to provide enhanced member experiences through digital technologies. The consolidated financial statements include the accounts of Corporate One and the three CUSOs. All significant intercompany accounts and transactions have been eliminated.

(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 consolidated 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. The preparation of financial statements in conformity with GAAP requires management to make estimates and

(Table dollar amounts in thousands)

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 the assessment of other-than-temporary impairment and the amortization/accretion of premiums/discounts on investments subject to prepayment. It is reasonably possible that our estimates could change based on the improvement or worsening of the performance of our other-than-temporarily impaired securities or the change in the prepayments currently expected on investments subject to prepayment. Actual results could differ from those estimates.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and spread around the world, resulting in business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. Corporate One has a Business Continuity Plan, including a formal Pandemic Plan. Corporate One is operating in accordance with the Pandemic Plan. However, the extent to which the coronavirus may impact Corporate One's business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain the coronavirus or treat its impact, among others.

(b) Cash and Cash Equivalents

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

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. Accordingly, Corporate One was required to maintain cash or deposits with the Federal Reserve Bank. In 2020, the Federal Reserve Board adopted an interim final rule amending Reg D to lower reserve requirement ratios on transaction accounts maintained at depository institutions to zero percent. Subsequent to December 31, 2020, the Federal Reserve Board finalized the rule with no substantive changes. Thus at December 31, 2020, no reserve was required. At December 31, 2019, cash held prior to month-end was sufficient; therefore, no reserve was required.

(c) Other Short-Term Investments

Other short term investments are liquid investments expected to be converted into cash within one year. These investments consist of commercial paper issued by A-rated companies that are unsecured, asset backed commercial paper, and government agency fixed notes. All of which pay a fixed rate of interest. As of December 31, 2020, all other short term investments held mature by August 13, 2021.

(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 at federally insured depository institutions and Federal Home Loan Bank (FHLB) of Cincinnati stock. Corporate One is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

(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. Available-for-sale securities 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. Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities with readily determinable fair values are classified as other assets on the balance sheet.

(Table dollar amounts in thousands)

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 available-for-sale securities are credited or charged to earnings when realized based on the specific-identification method.

Management evaluates securities for other-than-temporary impairment (OTTI) at least semi-annually, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the statement of income and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(f) Purchased Credit-Impaired Securities

Corporate One acquired private label mortgage-related securities as a result of a merger, which, at acquisition, there was evidence of deterioration of credit quality since origination. Such purchased credit-impaired securities are accounted for individually. Corporate One estimates the amount and timing of expected cash flows for each security, and the expected cash flows in excess of the amount paid is recorded as interest income over the remaining life of the security (accretable yield). The excess of the securities' contractual principal payments over expected cash flows is not recorded (nonaccretable difference).

Over the life of the securities, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, an other-than-temporary impairment charge is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income using the interest method over the remaining life of the security.

(g) Derivatives

Corporate One has an agreement with US Bank for the purpose of effecting derivative transactions. A derivative contract is a financial instrument whose value depends on, or is derived from, the value of an underlying asset, reference rate or index.

Corporate One uses derivative instruments primarily to minimize the effects of interest rate volatility on net interest income. Derivatives are closely matched with on-balance sheet risks. These derivative instruments are cash flow designated hedges and are recorded on the balance sheet at fair value with the offsetting changes recorded in other comprehensive income. The unrealized gain or loss is reflected under Other Assets or Accounts Payable and Other Liabilities and Accumulated Other Comprehensive Income. Related interest income or expense is reflected in the Consolidated Statements of Income under Net Interest Income.

Corporate One shall discontinue hedge accounting prospectively for an existing hedge if the derivative expires or is sold, terminated, or exercised, if the designation of the cash flow hedges are removed, if the hedged item is no longer probable or if the hedging relationship fails to be highly effective. When hedge accounting is discountinued, the net gain or loss in other comprehensive income will be reclassified to non-interest income based on the cash flows modeled in the most recent effective derivative relationship.

At December 31, 2020, an interest rate swap with a notional amount totaling $5.0 million was designated as a cash flow hedge of certain daily overnight market share accounts and was determined to be highly effective during all periods presented. As of December 31, 2019, there were no derivatives outstanding.

(Table dollar amounts in thousands)

(h) Loans

Member loans are divided into four classes: settlement, demand, term and warehouse 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.

An allowance for loan losses is 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.

(i) Property and Equipment

Property and equipment, included in other assets on the consolidated 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.

(j) Internal Use Software

Corporate One capitalizes certain costs for software that is internally developed for use in the business. Development costs generally include salaries and benefits of employees or consultants involved in the development, coding, testing and related project management of software intended for internal use. Costs are capitalized when the development stage begins until the software is substantially complete and ready for its intended use. During 2020, capitalized costs related to internally developed software were $730,000. During 2019, capitalized costs related to internally developed software were $382,000. Amortization begins when the software is available for use and continues on using the straight-line method over the estimated useful life of the software.

(k) Goodwill and Other Intangible Assets

Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that an impairment test should be performed. Corporate One has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposits and member relationships. The member relationship intangible is being amortized straight line over its estimated useful life of 12 years. The core deposit intangibles are being amortized on an accelerated amortization method over their estimated useful lives which range from 4 to 10 years.

(l) Indemnification Asset

In order to accomplish a merger with another corporate credit union, the National Credit Union Administration (NCUA) provided certain assistance in the form of a conditional indemnification agreement to cover losses on certain assets acquired by Corporate One. The indemnification asset was recognized at the time those assets were acquired and was measured on the same basis; recording both at fair value on the acquisition date. Any amortization of changes in value of the indemnification asset will be limited to the lesser of the contractual term of the indemnification agreement or the remaining life of the indemnified assets. The indemnification asset is included in other assets in the accompanying consolidated balance sheets.

(m) 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.

(Table dollar amounts in thousands)

(n) 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) 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 investment securities is discussed in Note 5. Additionally, in providing financial services solely to the credit union industry, Corporate One is dependent upon the viability of that industry and the industry's support of corporate credit unions.

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.

(o) Members' Capital Share Accounts

Credit unions transacting business with Corporate One are required to be a Partner member or an Associate member. Partner members enjoy Corporate One's most favorable rates on their investments and enjoy the lowest fees on services. Associate members may earn lower rates than Partner members on their investments with Corporate One and pay fees on services with Corporate One according to the Associate member fee schedules. Additionally, certain products and services, such as committed lines of credit and fee-free advised lines of credit, are available to Partner members only.

In 2010, the NCUA published revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, in the Federal Register. The revisions established a capital framework which included risk-based capital requirements. The old capital instruments, Paid-In Capital (PIC) and Membership Capital Shares (MCS), are phased out and two new capital instruments are established. These capital instruments are Perpetual Contributed Capital (PCC) and Non-perpetual Capital Accounts (NCA).

PCC is required for Partner membership in Corporate One. PCC is defined in Part 704.2 as accounts or other interests of a corporate credit union that: are perpetual, non-cumulative dividend accounts; are available to cover losses that exceed retained earnings, PIC and MCS; are not insured by the National Credit Union Share Insurance Fund (NCUSIF) or other share or deposit insurers; and cannot be pledged against borrowings. PCC is classified as equity in the financial statements.

PIC are investments by member credit unions and denote their ownership interest in Corporate One. PIC has no stated maturity date. Notice of intent to de-capitalize by the member is required and once notification is given, the shares are redeemed in 20 years. PIC is not subject to share insurance coverage by the NCUSIF and is available to cover losses that exceed retained earnings. PIC is classified as a liability in the financial statements and is no longer offered. As of October 21, 2011, all PIC not already on notice was automatically put on notice by Corporate One as required by the final revisions to Regulation Part 704. At December 31, 2020 and 2019, there were $20,000 of shares on notice and are included in liabilities under share certificates in the financial statements.

(p) Retained Earnings

Retained earnings represent earnings not distributed as dividends to members.

(q) Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on available-for-sale securities and unrealized losses on cash flow hedges. Comprehensive income (loss) also includes non-credit losses on available-for-sale securities related to other-than-temporary impairment.

(Table dollar amounts in thousands)

(r) Non-interest income

Non-interest income is earned on various services provided to credit unions and their affiliates. These services include payment and depository services and certificate of deposit and securities brokering. In addition to these services provided by the corporate, our wholly-owned CUSOs provide business lending solutions, asset/ liability management tools, loan analytics and investment advisory services, and member experiences through technologies. Revenue is recognized when the performance obligations related to the transfer of goods or services under the terms of the contract are satisfied.

(s) 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.

(t) Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the year ended December 31, 2020. These reclassifications had no impact on total assets, total liabilities and members' equity, or net income.

(u) Subsequent Events

Management has performed an analysis of activities and transactions subsequent to December 31, 2020, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2020. Management has performed such analysis through March 23, 2021, the date the financial statements are available to be issued.

(v) Regulatory Pronouncements

On October 20, 2011, major revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, became effective when published in the Federal Register. The major revisions involved corporate credit union capital, investments, asset/ liability management, governance and credit union service organization (CUSO) activities. The regulation established a new capital framework, including risk-based capital requirements; imposed new prompt corrective action requirements; placed various new limits on corporate investments; imposed new asset/liability management controls; amended some corporate governance provisions; and limited a corporate CUSO to categories of services pre-approved by the NCUA. The new capital instruments were defined, a process for phasing out MCS and PIC was set forth, and new capital ratio requirements were established. In 2017, the NCUA issued amendments to Regulation Part 704. Specifically, the amendments established a retained earnings ratio requirement and revised the definitions of retained earnings and Tier 1 capital. These requirements are discussed further in Note 14.

In November 2020, the NCUA issued another amendment that updates, clarifies, and simplifies several provisions of the NCUA's corporate credit union regulation, including: permitting a corporate credit union to make a minimal investment in a CUSO without the CUSO being classified as a corporate CUSO under the NCUA's rules; expanding the categories of senior staff positions at member credit unions eligible to serve on a corporate credit union's board; and amending the minimum experience and independence requirement for a corporate credit union's enterprise risk management expert. These updates had no impact to the consolidated financial statements presented.

(Table dollar amounts in thousands)

(3) LOANS

Loans to members at December 31 are summarized at right.

An allowance for loan losses (ALL) was not considered necessary at December 31, 2020 or 2019, for member loans based on management's continuing review and evaluation of the loan portfolio. Corporate One incurred no loan losses in either 2020 or 2019 on member loans, and considers no member loans impaired as of, or during the years ended December 31, 2020 and 2019.

	2020	2019
Member loans:		
Term	$ 14,225	$ 18,060
Warehouse	29,806	41,045
Demand	847	1,329
Settlement	65	1,351
TOTAL LOANS	$ 44,943	$ 61,785

(4) INVESTMENTS IN FINANCIAL INSTITUTIONS

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

	2020	2019
Federal Home Loan Bank stock	$ 9,445	$ 15,352
Certificates of deposit	16,365	15,853
CLF stock	42,620	
TOTAL INVESTMENTS IN FINANCIAL INSTITUTIONS	$ 68,430	$ 31,205

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. Corporate One views its investment in the FHLB as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value rather than recognizing temporary declines in value. Based on our review of the financial condition of the FHLB of Cincinnati, Corporate One does not believe that its investment in the FHLB was impaired as of or for the years ended December 31, 2020 and 2019.

As of December 31, 2020 and 2019, certificates of deposit are all with domestic credit unions or banks. The certificates through the domestic banks and credit unions are all within the insurance limits as set forth by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund (NCUSIF).

Certificates of deposit by maturity at December 31, 2020, are summarized as follows:

Year of Maturity	Balance
2021	$ 11,405
2022	1,736
2023	1,984
2024	1,240
TOTAL CERTIFICATES OF DEPOSIT	$ 16,365

In May 2020, Corporate One contributed capital stock on behalf of our member credit unions with assets under $250 million and became an agent member of the NCUA's Central Liquidity Facility (CLF) Agent Subscription Program. This stock is held in cash at the US Treasury or invested in US Treasuries. As of December 31, 2020, Corporate One held $42.6 million in this facility.

(Table dollar amounts in thousands)

(5) SECURITIES

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

2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	$ 474,691	$ 1,878	$ (8)	$ 476,561
Government-sponsored enterprises	493,618	1,339	(25)	494,932
Small business administration (SBA) securities	1,196,895	15,089		1,211,984
Mortgage-related securities	814,915	5,249	(668)	819,496
Asset-backed securities	1,285,244	4,800	(9,741)	1,280,303
TOTAL AVAILABLE-FOR-SALE SECURITIES	$ 4,265,363	$ 28,355	$ (10,442)	$ 4,283,276

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	$ 317,469	$ 1,200	$ (32)	$ 318,637
Government-sponsored enterprises	100,000	238	(6)	100,232
Small business administration (SBA) securities	881,358	8,487		889,845
Mortgage-related securities	461,953	8,019	(1,268)	468,704
Asset-backed securities	702,868	1,240	(10,016)	694,092
TOTAL AVAILABLE-FOR-SALE SECURITIES	$ 2,463,648	$ 19,184	$ (11,322)	$ 2,471,510

Proceeds from the sale of available-for-sale securities were $191.3 million in 2020. Gross gains of $7.4 million and gross losses of $400,000 were recorded on securities during 2020. In January and February 2020, Corporate One sold 40 private-label mortgage-backed securities with a current par at the time of sale of $52.1 million. Fourteen of the 40 securities sold were purchase credit impaired securities with a current par at the time of sale of $29.9 million. All the securities sold were classified as available-for-sale and were sold to reposition our investment portfolio into other classes of securities. Proceeds from the sale of available-for-sale securities were $176.4 million in 2019. Gross gains of $2.9 million and gross losses of $2.0 million were recorded on securities during 2019.

U.S. government agency securities are debt obligations issued by government-sponsored enterprises or U.S. government agencies. Government-sponsored enterprises are independent organizations sponsored by the federal government and established with a public purpose. SBA securities consist primarily of securitized loans to small businesses used for the purchase of land, buildings, equipment or new construction. 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.

(Table dollar amounts in thousands)

The expected distributions of securities at December 31, 2020, are reflected in the following table. Because the actual lives of certain mortgage-related securities, certain asset-backed securities, SBA securities and investments in government-sponsored enterprises can differ from contractual maturities due to call or prepayment features, these items are presented separately with their related expected weighted average lives (WAL).

	Available-for-Sale		
	Amortized Cost	Fair Value	WAL (in years)
Securities with contractual maturities:			
Due in one year or less	$ 470,783	$ 471,675	
Due after one year through five years	1,458,495	1,463,572	
Due after five years through ten years	20,000	20,214	
Securities with prepayment features:			
Residential mortgage-backed securities:			
Agency	806,879	811,593	5.30
Non-agency	8,036	7,903	2.51
Asset-backed securities	304,275	296,335	3.14
SBA securities	1,196,895	1,211,984	3.65
TOTAL	$ 4,265,363	$ 4,283,276	

Certain securities are pledged as collateral to secure certain lines of credit with financial institutions. See Note 9 for further details.

At December 31, 2020, approximately 88 percent of the par value amount, or $3.73 billion, of Corporate One's securities, with a fair market value of $3.75 billion, were variable-rate securities, the majority of which had interest rates that reset daily, monthly or quarterly, based upon either Fed Funds Daily, Overnight SOFR, LIBOR or Prime. Of these $3.73 billion of variable-rate securities, 13 percent of the par value amount, or $470.4 million of such securities, with a fair market value of $473.5 million, had interest rate caps that were fixed at the time of issuance and the caps range from 5.4 percent to 16.0 percent.

(Table dollar amounts in thousands)

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

2020						
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Corporate debt securities	$ 15,315	$ (8)			$ 15,315	$ (8)
Government-sponsored enterprises	19,400	(25)			19,400	(25)
Mortgage-related securities	65,577	(245)	$ 5,799	$ (423)	71,376	(668)
Asset-backed securities	172,361	(858)	196,124	(8,883)	368,485	(9,741)
TOTAL TEMPORARILY IMPAIRED SECURITIES	$ 272,653	$ (1,136)	$ 201,923	$ (9,306)	$ 474,576	$ (10,442)

2019						
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Corporate debt securities	$ 9,968	$ (32)			$ 9,968	$ (32)
Government-sponsored enterprises	29,994	(6)			29,994	(6)
Mortgage-related securities	152,776	(718)	$ 29,135	$ (550)	181,911	(1,268)
Asset-backed securities	129,331	(186)	238,883	(9,830)	368,214	(10,016)
TOTAL TEMPORARILY IMPAIRED SECURITIES	$ 322,069	$ (942)	$ 268,018	$ (10,380)	$ 590,087	$ (11,322)

Corporate One believes the declines in fair values of our asset-backed securities 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. Management believes the unrealized losses on the mortgage-related securities are the result of historically high defaults, delinquencies and loss severities on mortgages underlying the mortgage-related securities, as well as the deterioration of liquidity due to an imbalance between the supply and demand for these securities. We expect the fair value to recover as the securities approach their maturity date. Corporate One does not intend to sell nor is it more likely than not that we will be required to sell these securities prior to a price recovery or maturity. Accordingly, Corporate One determined that there was no other-than-temporary impairment of its securities during 2020 and 2019.

Gross unrealized losses on corporate debt securities and government-sponsored enterprises were immaterial to the total gross unrealized losses at December 31, 2020.

(Table dollar amounts in thousands)

Gross unrealized losses on asset-backed securities represent 93 percent of our gross unrealized losses at December 31, 2020. The amortized costs, fair values, credit grades and WAL of asset-backed securities at December 31, 2020, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade	WAL
Student loans:							
FFELP*	$ 233,123	$ 225,159	$ 1,582	$ (9,546)	AAA	B	6.22
Private	375	373		(2)	AAA	A	.94
Credit cards	422,662	423,576	917	(3)	AAA	AAA	1.25
Automobiles	450,333	452,088	1,877	(122)	AAA	AAA	1.41
Other	178,751	179,107	424	(68)	AAA	AA	1.51
ASSET-BACKED SECURITIES	$ 1,285,244	$ 1,280,303	$ 4,800	$ (9,741)			

*Federal Family Education Loan Program

Of the 45 non-mortgage related asset-backed securities we own that were in an unrealized loss position, 30 of those securities are dual rated A or better. The remaining are dual rated B or better. We continue to receive principal and interest payments on these securities. FFELP student loan asset-backed securities, which constitute our largest gross unrealized losses, continue to benefit from the ultimate guarantee from the US Department of Education as to payment of principal and accrued interest of 97 percent or more. We believe these losses are temporary and that fair values will approximate amortized costs as the securities near maturity.

Gross unrealized losses on residential mortgage-backed securities and home equity asset-backed securities represent six percent of our gross unrealized losses at December 31, 2020. The amortized costs, fair values and credit grades of mortgage-related securities at December 31, 2020, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade
Government agency insured	$ 806,879	$ 811,593	$ 4,965	$ (251)		
Private:						
Prime collateral	550	557	7		BB	B
Near-prime collateral*	112	237	128	(3)	BB	CCC
Sub-prime collateral**	5,056	4,703	1	(354)	AAA	C
Insured	2,318	2,406	148	(60)	BBB	CCC
MORTGAGE-RELATED SECURITIES	$ 814,915	$ 819,496	$ 5,249	$ (668)		

*Based on the definition used on offering circulars
** Based on 660 or lower FICO score

At December 31, 2020, of the 15 mortgage-related available-for-sale securities we own that were in an unrealized loss position, one was rated C by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The remaining are dual rated CCC or better.

In order to determine if the declines in fair value below amortized cost represented OTTI, management considered various impairment indicators such as: securities that have had ratings downgrades, securities that have been underwater for greater than 12 months and securities that have severe unrealized losses. We also utilize outside

(Table dollar amounts in thousands)

services to assist management in performing detailed cash flow analyses to determine if 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. It is possible that the underlying loan collateral of these securities may perform at a level worse than our expectations, which may result in adverse changes in cash flows for these securities and potential OTTI writedowns in the future.

For the securities where we believe not all principal and interest will be received, OTTI charges were recorded in previous years. As of December 31, 2020, we owned 4 mortgage-related securities that were previously determined to be other-than-temporarily impaired. No additional OTTI charges were recorded on these securities during 2020. These securities had a total par value of approximately $5.3 million at December 31, 2020.

As of December 31, 2019, we owned 6 mortgage-related securities that were previously determined to be other-than-temporarily impaired. No additional OTTI charges were recorded on these securities during 2019. These securities had a total par value of approximately $8.9 million at December 31, 2019.

The following table details losses, both net impairment losses recognized in earnings and accumulated other comprehensive income (loss), as of and for the years ended December 31, 2020 and 2019.

	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2020	Accumulated Other Comprehensive Income (Loss) as of December 31, 2020	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2019	Accumulated Other Comprehensive Income (Loss) as of December 31, 2019
Available-for-sale securities:				
Corporate debt securities		$ 1,870		$ 1,168
Government-sponsored enterprises		1,314		232
Mortgage-related securities - other-than-temporarily impaired		(79)		5,027
Mortgage-related securities		4,660		1,724
Asset-backed securities		(4,941)		(8,776)
SBA securities		15,089		8,487
TOTAL AVAILABLE-FOR-SALE SECURITIES		$ 17,913		$ 7,862

The following table details cumulative credit losses on other-than-temporarily impaired debt securities for the periods ended December 31, 2020 and 2019.

	Cumulative Credit Losses on Debt Securities	
	2020	2019
Beginning balance, January 1,	$ (1,866)	$ (21,924)
Reductions for previous credit losses realized on securities sold or matured during the year	280	19,591
Reduction due to increases in expected cash flows	229	467
ENDING BALANCE, DECEMBER 31,	$ (1,357)	$ (1,866)

(Table dollar amounts in thousands)

Principal Losses and Recoveries
During 2019, we held 82 private-label mortgage-backed securities, of which a portion of those securities incurred principal shortfalls of $740,300. We had anticipated these principal shortfalls and had taken OTTI charges on these securities previously or these securities were deemed purchased credit impaired when acquired through the merger. During 2019 and into 2020, we sold 60 private-label mortgage-backed securities. These securities were classified as available-for-sale and were sold to reposition our investment portfolio into other classes of securities. As a result of these sales, during 2020, only two private-label mortgage-backed securities incurred principal shortfalls of $4,000; we had taken OTTI charges on these securities previously.

In 2019, we recorded $1.1 million in principal recoveries as part of various class action lawsuits and resulted in an increase in the cash flows of certain other than temporarily impaired securities. These recoveries were recorded as a component of net interest income in the accompanying consolidated statements of income. Minimal recovery amounts were received in 2020 and we do not anticipate material recoveries in the future.

Purchased Credit Impaired Securities
As a result of a merger with another corporate credit union, we acquired 20 private label mortgage-related securities for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Since acquisition, 19 securities either matured or were sold and as of December 31, 2020, we hold one purchased credit impaired security.

A rollforward of the amortized cost, par value, discount amounts and fair value of the remaining private label mortgage-related securities as of December 31, 2020 and 2019, respectively, is as follows:

	2020				
	Amortized Cost	Par Value	Nonaccretable Discount	Accretable Discount	Fair Value
At January 1,	$ 12,339	$ 30,073	$ 11,364	$ 6,370	$ 18,334
Accretion	43			(43)	
Paydowns	(100)	(100)			(100)
Principal shortfalls		(1)	(1)		
Sale of Securities	(12,191)	(29,881)	(11,363)	(6,327)	(17,936)
Net change in fair value					(208)
Balance at December 31,	$ 91	$ 91	$ 0	$ 0	$ 90

	2019				
	Amortized Cost	Par Value	Nonaccretable Discount	Accretable Discount	Fair Value
At January 1,	$ 20,159	$ 44,111	$ 15,242	$ 8,710	$ 28,728
Accretion	1,181			(1,181)	
Paydowns	(7,866)	(7,866)			(7,866)
Principal shortfalls		(314)	(314)		
Change due to improved projected cash flows	(1,135)	(5,858)	(3,564)	(1,159)	(2,405)
Net change in fair value					(123)
Balance at December 31,	$ 12,339	$ 30,073	$ 11,364	$ 6,370	$ 18,334

In 2019, the remaining accretable discount on these purchased credit impaired securities was recognized as an increase to interest income using the interest method over the remaining lives of these securities.

(Table dollar amounts in thousands)

(6) NON-MARKETABLE 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:

	2020	2019
Primary Financial Company LLC	$ 4,505	$ 4,372
eDoc Innovations, Inc.	2,231	2,083
Tranzcapture LLC	250	250
CULedger LLC	250	250
TOTAL NON-MARKETABLE EQUITY INVESTMENTS	$ 7,236	$ 6,955

Corporate One has a 21.33 percent investment in Primary Financial Company LLC (Primary Financial). Primary Financial is a corporate CUSO and brokers non-negotiable and negotiable certificates of deposit. This investment 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 non-interest income in the accompanying consolidated statements of income, was $133,000 and $116,000 in 2020 and 2019, respectively. Corporate One is also a co-broker of Primary Financial and, as such, earns a spread on certificates placed. Corporate One recognized as a component of non-interest income in the accompanying consolidated statements of income, $1.29 million in 2020 and $1.41 million in 2019 on the certificates placed.

Corporate One has an approximately 27 percent investment in eDoc Innovations, Inc. (eDoc). eDoc is a corporate CUSO that provides to credit unions e-document management technology as well as technology and services related to check clearing and forward check collection. 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. Corporate One's portion of eDoc's current period net income or loss, recognized as a component of non-interest income in the accompanying consolidated statements of income, was income of $148,000 in 2020 and income of $151,000 in 2019.

Corporate One has a one percent investment, or ten units, in Tranzcapture LLC (Tranzcapture). Corporate One invested in Tranzcapture during 2018 and the units purchased were assigned from another institution. The Tranzcapture software development CUSO was established in November 2015, due to the need for next generation deposit capture services. This investment is accounted for using the cost method.

Sherpa, a wholly-owned subsidiary of Corporate One, purchased one unit ownership in CULedger, LLC (CULedger) during 2018. CULedger is focused on the development of distributed ledger technology. This investment is accounted for using the cost method.

(7) GOODWILL AND INTANGIBLE ASSETS

As a result of a merger with another corporate credit union, Corporate One recorded goodwill of $3.4 million and intangible assets of $29.2 million.

The goodwill is attributable to the expanded membership base, the acquisition of staff with specialized corporate credit union knowledge, the increased deposit base and the anticipated economic value of the securities acquired. Goodwill is not amortized but is evaluated for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. At December 31, 2020, Corporate One performed a qualitative assessment to determine if it was more likely than not that goodwill is impaired, meaning the carrying amount of goodwill exceeds its implied fair value. Based on our review of as of December 31, 2020, we do not believe goodwill is impaired.

(Table dollar amounts in thousands)

The intangible assets of $29.2 million resulted from the value of core deposits and member relationships. The intangible assets are amortized over their useful lives which range from four to twelve years.

The following table details the balances of the intangible assets and the related accumulated amortization at December 31:

	2020	
	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 24,962	$ 23,352
Member relationship intangibles	4,200	2,978
TOTAL INTANGIBLE ASSETS	$ 29,162	$ 26,330

	2019	
	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	$ 24,962	$ 21,818
Member relationship intangibles	4,200	2,627
TOTAL INTANGIBLE ASSETS	$ 29,162	$ 24,445

The following table represents the estimated amortization expense of our intangible assets for the next four years:

Year	Annual amortization expense
2021	$ 1,496
2022	814
2023	350
2024	172

In addition to amortizing these intangibles, we evaluate them for impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. During our review, we determined that while the average transactional balances of the acquired members was much higher than we projected, due to the current and forecasted low interest rate environment, the value of these deposits is not as great as originally expected. We do not believe that rates will substantially change throughout the remainder of the amortization period, thus a comparison of the undiscounted cash flows and the carrying value of this intangible resulted in an adjustment to the core deposit intangible. As a result of this analysis, we recognized approximately $1.0 million in impairment expense in 2020. As of December 31, 2020, we do not believe that the intangible assets are impaired.

(8) OTHER ASSETS

Included in other assets is a deposit with the NCUSIF for share insurance, accounts receivable, prepaid accounts, net property and equipment and an indemnification asset. Both marketable and non-marketable equity investments are also included in other assets. Non-marketable equity investments are discussed in Note 6. Also included in other assets are split dollar loans related to a Supplemental Executive Retirement Plan (SERP), which are discussed in Note 12.

(Table dollar amounts in thousands)

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

	2020	2019
Buildings and improvements	$ 10,264	$ 10,194
Equipment	8,992	8,369
	19,256	18,563
Less: Accumulated depreciation	8,730	9,103
NET PROPERTY AND EQUIPMENT	$ 10,526	$ 9,460

(9) BORROWED FUNDS

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, 2020 and 2019, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $2.54 billion and $1.40 billion, respectively, which provided a borrowing capacity of approximately $2.28 billion and $1.29 billion, respectively. At December 31, 2020 and 2019, there were no borrowings outstanding.

We have been granted primary credit with the Federal Reserve Bank. Primary credit is available to generally sound depository institutions on a very short-term basis, typically overnight, at a rate above the Federal Open Market Committee's (FOMC) target rate for federal funds. All extensions of credit must be secured to the satisfaction of the lending Federal Reserve Bank by collateral that is acceptable for that purpose. At December 31, 2020 and 2019, Corporate One had securities held in safekeeping at the Federal Reserve Bank with fair values of approximately $1.34 billion and $539.4 million, respectively, which provided a borrowing capacity of approximately $1.29 billion and $516.9 million, respectively. At December 31, 2020 and 2019, there were no amounts outstanding on the line of credit with the Federal Reserve Bank.

Corporate One also maintains reverse repurchase agreements with certain parties allowing for additional liquidity of approximately $375 million. These agreements use some of our asset-backed securities as collateral. Corporate One had no amounts outstanding under reverse repurchase agreements at December 31, 2020 or 2019. Average borrowings under reverse repurchase agreements were approximately $159,700 during 2020 and $172,500 during 2019. There was no amount outstanding at any month-end during 2020 or 2019.

We also maintain $230.0 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing. No amount was outstanding at December 31, 2020 or 2019.

(Table dollar amounts in thousands)

(10) SHARE ACCOUNTS AND MEMBER CAPITAL ACCOUNTS

Balances of share accounts and member capital accounts at December 31 are summarized as follows:

	2020	2019
	Balance	Balance
Settlement and regular shares	$ 5,712,175	$ 3,118,588
Share certificates	192,212	326,199
TOTAL SHARE ACCOUNTS	$ 5,904,387	$ 3,444,787
PCC	$ 223,365	$ 223,365
TOTAL MEMBER CAPITAL ACCOUNTS	$ 223,365	$ 223,365

Settlement and regular share accounts are available to members on demand and pay dividends either daily or monthly. Eligible accounts of members are insured by the NCUSIF up to $250,000 per member. As of December 31, 2020 and 2019, insured member accounts totaled $146.5 million and $156.2 million, respectively. 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 and PIC accounts by maturity at December 31, 2020 are summarized as follows:

Year of Maturity	Balance
2021	$ 82,717
2022	97,925
2023	11,550
2031	20
TOTAL SHARE CERTIFICATES	$ 192,212

Share certificates that meet or exceed the NCUSIF insurance limit of $250,000 at December 31, 2020 and 2019 were $174.2 million and $299.6 million, respectively.

Corporate One offers PCC to Associate members or new members who want to become Partner members of Corporate One. Dividends on PCC are paid quarterly.

(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, 2020 and 2019, these financial instruments included outstanding advised lines of credit of approximately $3.9 billion and $3.8 billion, respectively. There were no outstanding committed lines of credit at December 31, 2020 or 2019.

(Table dollar amounts in thousands)

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 defined-contribution plan (Plan) established under Section 401(k) of the Internal Revenue Code which covers substantially all employees. The Plan allows employees to contribute up to the Internal Revenue Service maximum allowable percentage of their compensation. Employees also have the option to contribute a portion of their compensation on a pre- or post-tax basis. Corporate One matches 150 percent of the first three percent employee contribution and 75 percent on the next two. In addition, Corporate One may elect to make discretionary contributions to the Plan. This election requires approval by the Board of Directors. There was no additional discretionary contributions for 2020. In 2019, the Board voted to pay in April 2020 an additional 4 percent one-time discretionary contribution to be awarded to employees. Retirement expense was approximately $1,059,000 in 2020 and $1,661,500 in 2019.

Corporate One has provided certain executives with a SERP. The SERP is being funded via life insurance policies issued by Massachusetts Mutual Life Insurance Company, Lafayette Life Insurance Company and Penn Mutual Life Insurance Company, and split dollar loan agreements have been entered into with each of the executives covered under the SERP. As part of the split dollar loan agreements, the executives have assigned the policies to Corporate One as collateral. This assignment secures repayment of any advances and accrued interest for policy premiums and any other advances under any agreement. The premiums on these policies are funded through annuities purchased by Corporate One through Massachusetts Mutual Life Insurance Company and Integrity Life Insurance Company. During 2020, additional executives were added to this plan and the split dollar loan agreements held by the original executives were amended for additional policy coverage as well as modifications to certain terms and the interest rate. The loans were modified and have a 1.01 percent fixed interest rate, with interest accrued monthly and capitalized as part of the total loan balance annually. Total capitalized accrued interest for the years ending December 31, 2020 and 2019 was $160,000 and $570,000, respectively. Total split dollar loans outstanding at December 31, 2020 and 2019 were $30.7 million and $27.1 million, respectively, and are included in other assets in the accompanying consolidated balance sheets.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance defines fair value 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. A fair value hierarchy exists in this guidance, 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.

The guidance requires that the highest level of valuation available be used. This standard 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.

(Table dollar amounts in thousands)

The fair value of available-for-sale securities other than some residential mortgage-backed or private student loan asset-backed securities are determined by obtaining quoted prices from brokers or pricing services, or market listings as of the last day of the year. For securities where there is limited trading due to current market conditions, pricing services utilized matrix pricing to determine the price. Matrix pricing is a mathematical technique used widely in the industry to value debt securities without relying on quoted prices for the specific securities, but rather by relying on the securities' relationship to other benchmark quoted securities. We have classified the pricing for such securities as Level 2.

Corporate One engages independent third-party experts to value our asset-backed securities where pricing is not available from a pricing service and our residential mortgage-backed and home equity asset-backed securities. These third-party experts use their internal models for pricing these securities. Information such as historical and current performance of the underlying collateral, deferral/default rates, collateral coverage ratios, cash flow projections, and liquidity and credit premiums required by a market participant, are utilized in determining individual security valuations. For residential mortgage-backed and private student loan asset-backed securities where we see limited trading due to current market conditions, we classify the pricing for such securities as Level 3. For these securities, the fair value is highly sensitive to assumption changes and market volatility.

Assets measured at fair value on a recurring basis are summarized below as of December 31, 2020:

	Total Fair Value	Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Using Significant Other Observable Inputs (Level 2)	Fair Value Using Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Corporate debt securities	$ 476,561	$ 476,561		
Government-sponsored enterprises	494,932		$ 494,932	
Mortgage-related securities - agency	811,593		811,593	
Mortgage-related securities - private	7,903		2,566	$ 5,337
SBA securities	1,211,984		1,211,984	
Asset-backed securities:				
Student loans - FFELP	225,159		225,159	
Student loans - private	373		167	206
Credit cards	423,576		423,576	
Automobiles	452,088		452,088	
Other	179,107		179,107	
TOTAL AVAILABLE-FOR-SALE SECURITIES	$ 4,283,276	$ 476,561	$ 3,801,172	$ 5,543

(Table dollar amounts in thousands)

Assets measured at fair value on a recurring basis are summarized below as of December 31, 2019:

	Total Fair Value	Fair Value Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Using Significant Other Observable Inputs (Level 2)	Fair Value Using Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
Corporate debt securities	$ 318,637	$ 318,637		
Government-sponsored enterprises	100,232		$ 100,232	
Mortgage-related securities - agency	418,470		418,470	
Mortgage-related securities - private	50,234		19,564	$ 30,670
SBA securities	889,845		889,845	
Asset-backed securities:				
Student loans - FFELP	192,441		192,441	
Student loans - private	1,438		1,138	300
Credit cards	220,717		220,717	
Automobiles	210,138		210,138	
Other	69,358		69,358	
TOTAL AVAILABLE-FOR-SALE SECURITIES	$ 2,471,510	$ 318,637	$ 2,121,903	$ 30,970

The table below presents a reconciliation for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2020 and 2019.

	Total Fair Value of Available-for-Sale Securities Priced Using Significant Unobservable Inputs (Level 3)	
	2020	2019
Beginning balance January 1,	$ 30,970	$ 71,939
Changes in fair values of Level 3 securities due to change in price:		
Mortgage-related securities - private	(121)	281
Student loans - private	1	
Decreases due to net gain on sales of securities:		
Net gain on sales of securities	(5,568)	(531)
Decreases due to sales, maturities and paydowns:		
Mortgage-related securities - private	(19,734)	(41,019)
Student loans - private	(95)	
Net transfers in and/or (out) of Level 3:		
Mortgage-related securities - private	90	
Student loans - private		300
ENDING BALANCE DECEMBER 31,	$ 5,543	$ 30,970

We classify the fair value of those securities where there is a lack of observable market data as Level 3. As of December 31, 2020, one mortgage-related private security with a fair value of $90,000 was transferred out of Level 2 and into Level 3 because observable market data was no longer available. As of December 31, 2019, one private-label student loan with a fair value of $300,000 was transferred out of Level 2 and into Level 3 because observable market data was no longer available.

(Table dollar amounts in thousands)

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2020 and 2019:

2020					
	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Mortgage-related securities - private	$ 5,337	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	(0-94) (0-20) (0-49)	8.32 3.98 22.25
Student loans - private	206	Discounted cash flow	Constant prepayment rate Probability of default Loss severity		9.01 1.59 72.02
TOTAL LEVEL 3 SECURITIES	$ 5,543				

2019					
	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Mortgage-related securities - private	$ 30,670	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	(0-97) (0-53) (0-97)	15.40 4.39 16.90
Student loans - private	300	Discounted cash flow	Constant prepayment rate Probability of default Loss severity		9.01 1.99 65.03
TOTAL LEVEL 3 SECURITIES	$ 30,970				

As of December 31, 2020, the Level 3 securities consist of 5 private label mortgage-related securities and one private-label student loan. The significant unobservable inputs used in the fair value measurements of these securities are prepayment rates, probability of default, and loss severity in the event of default. Significant increases/(decreases) in any of those inputs in isolation would result in a significantly lower/(higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

(14) REGULATORY CAPITAL AND NET ECONOMIC VALUE REQUIREMENTS

The NCUA Rules and Regulations, Part 704 provides the rules for governing corporate credit unions. The rules include the capital framework, definitions for various capital instruments, and the capital ratios a corporate credit union must meet.

(Table dollar amounts in thousands)

The following table presents the ratios, definitions of the numerators and denominators for each of the ratios and the required minimum levels for well capitalized and adequately capitalized designations under the regulation. The definitions of the numerators are simplifications, as the regulation contains certain adjustments to each capital calculation.

	Numerator	Denominator	Well capitalized	Adequately capitalized
Leverage ratio	Tier 1 Capital***	MDANA*	5.00%	4.00%
Tier 1 risk-based capital ratio	Tier 1 Capital***	MDANRA**	6.00%	4.00%
Total risk-based capital ratio	Total Capital***	MDANRA**	10.00%	8.00%

*Moving Daily Average Net Assets (NCUA allows for the deductions used in Tier 1 capital to be deducted from MDANA)
**Moving Daily Average Net Risk Weighted Assets
*** As defined by the NCUA Rules and Regulations §704.2

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

	2020	2019
Retained Earnings	$ 115,092	$ 100,905
PCC	223,365	223,365
Less: CUSO investments (equity and cost)	(7,236)	(6,955)
Tier 1 Capital	331,221	317,315
Unamortized PIC	20	20
Tier 2 Capital	20	20
TOTAL CAPITAL	$ 331,241	$ 317,335

As of December 31, 2020, MDANA and MDANRA were $5.34 billion and $1.89 billion, respectively. As of December 31, 2019, MDANA and MDANRA were $3.37 billion and $1.10 billion, respectively. NCUA Rules and Regulations Part 704 allows for the deductions from Tier 1 capital to also be deducted from MDANA for use in the leverage ratio capital. At December 31, 2020 and 2019, adjusted MDANA (used for the leverage ratio) was $5.33 billion and $3.37 billion, respectively.

The following summarizes Corporate One's capital ratios as of December 31, 2020 and 2019.

	December 31, 2020	December 31, 2019
Retained earnings ratio	2.16%	2.99%
Leverage ratio	6.22%	9.44%
Tier 1 risk-based capital ratio	17.55%	28.88%
Total risk-based capital ratio	17.56%	28.88%

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. As of December 31, 2020 and 2019, Corporate One exceeded all the regulatory capital ratio requirements.

Corporate One's NEV sensitivity is limited by Part 704 of NCUA rules and regulations to a 20 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.

Throughout 2020 and 2019, we complied with the NEV sensitivity requirement and the NEV ratio requirement.

(Table dollar amounts in thousands)

(15) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2020 and 2019.

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Total
December 31, 2020			
Beginning balance – accumulated other comprehensive (loss) income by component		$ 7,862	$ 7,862
Other comprehensive income before reclassification	$ (1)	17,088	17,087
Amounts reclassified from accumulated other comprehensive income (loss)		(7,037)	(7,037)
Net current period other comprehensive income	(1)	10,051	10,050
ENDING BALANCE – ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT	$ (1)	$ 17,913	$ 17,912

	Unrealized Gains and Losses on Available-for-Sale Securities
December 31, 2019	
Beginning balance – accumulated other comprehensive (loss) income by component	$ (3,608)
Other comprehensive income before reclassification	12,341
Amounts reclassified from accumulated other comprehensive income (loss)	(871)
Net current period other comprehensive income	11,470
ENDING BALANCE – ACCUMULATED OTHER COMPREHENSIVE INCOME BY COMPONENT	$ 7,862

(Table dollar amounts in thousands)

The following are significant amounts reclassified out of accumulated other comprehensive income (loss) for the years ending December 31, 2020 and 2019.

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2020	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2019	Affected Line Item in the Consolidated Statements of Income
Reclassification adjustment recognized in earnings for net gain from sales of securities	$ (7,037)	$ (871)	Net gain on sales of securities
TOTAL RECLASSIFICATIONS FOR THE PERIOD	$ (7,037)	$ (871)	

(16) REVENUE FROM CONTRACTS WITH MEMBERS

All of Corporate One's revenue from contracts with members in the scope of ASC 606 is recognized within Non-Interest Income. The following table presents Corporate One's sources of Non-Interest Income for the twelve months ended December 31, 2020 and 2019. Items outside the scope of ASC 606 are noted as such.

	Year Ended December 31,	
	2020	2019
Non-Interest Income		
CUSO income	$ 7,183	$ 5,850
Payment services	3,466	3,805
Brokerage services	1,876	1,647
Other*	1,251	1,604
Non-interest income within the scope of other GAAP topics	836	751
TOTAL NON-INTEREST INCOME	$ 14,612	$ 13,657

*The Other category includes vault and securities safekeeping services and miscellaneous member fees.

A description of Corporate One's revenue streams accounted for under ASC 606 follows:

CUSO Income – Corporate One's wholly-owned CUSOs earn fees from providing business lending solutions, asset/liability management tools, loan analytics and investment advisory services, and member experiences through technologies. These fees are primarily earned upon the delivery of a product or access to a system or consultant over a period of time. The services performed over time are typically billed monthly but may be billed quarterly or annually and the income is recognized over the period of time the performance obligation is fulfilled. Account servicing fees, which relate primarily to monthly access to a system, are earned over the course of a month, representing the period over which the performance obligation is satisfied. In certain arrangements, our wholly-owned CUSOs (i) act as an agent in arranging the relationship between the member and the third-party service provider and (ii) do not control the services rendered to the members in certain arrangements. In those arrangements, we recognized net CUSO income of $624,000 and $550,000 included in CUSO income above, of which $1.658 million and $1.639 million represents gross CUSO income and $1.034 million and $1.089 million represents third-party costs incurred to provide these services for the twelve months ended December 31, 2020 and 2019, respectively. Where our wholly-owned CUSOs act as principals, third-party costs of $694,000 and $423,000 are included in other operating expenses in the accompanying consolidated statements of income for the twelve months ended December 31, 2020 and 2019, respectively.

(Table dollar amounts in thousands)

Payment Services – Corporate One earns fees from payment services provided to its members for transaction-based and account maintenance services. A portion of these services are performed by third-party service providers. Transaction-based fees, which include services such as ACH fees, remote deposit capture fees, sharedraft processing fees and wire transfer fees, are recognized at the time the transaction is executed as that is the point in time Corporate One fulfills the member's request (via a third-party provider). Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month, representing the period over which Corporate One (via third-party providers) satisfies the performance obligation. Because Corporate One (i) acts as an agent in arranging the relationship between the member and the third-party service providers and (ii) does not control the services rendered to the members, payment services fees are presented net of related costs, of which $2.54 million and $2.51 million in third-party costs were incurred to provide these services for the twelve months ended December 31, 2020 and 2019, respectively. Payment service fees are withdrawn from the member's deposit account balance.

Brokerage Services – Corporate One earns fees from investment brokerage services provided to its members by third-party service providers. Corporate One receives commissions from the third-party service providers on a monthly basis based upon member activity for the month. Because Corporate One's performance obligation is satisfied at the service date, the commissions are recognized at that point in time and a receivable is recorded until commissions are received typically the following month. Because Corporate One (i) acts as an agent in arranging the relationship between the member and the third-party service providers and (ii) does not control the services rendered to the members, brokerage service fees are presented net of related costs, including $210,000 and $87,000 in third-party costs incurred to provide these services for the twelve months ended December 31, 2020 and 2019, respectively.

Other – Corporate One earns fees from other revenue streams for transaction-based and account maintenance services provided to its members by third-party service providers. Transaction-based fees, which include services such as vault cash ordering and depositing and securities safekeeping, are recognized at the time the transaction is executed as that is the point in time Corporate One fulfills the member's request (via third-party providers). Account maintenance fees, which relate primarily to monthly maintenance and access fees, are earned over the course of the month, representing the period over which Corporate One (via third-party providers) satisfies the performance obligation. Because Corporate One (i) acts as an agent in arranging the relationship between the member and the third-party service providers and (ii) does not control the services rendered to the members, these fees are presented net of related costs, including $579,000 and $252,000 in third-party costs incurred to provide these services for the twelve months ended December 31, 2020 and 2019, respectively. Other service fees are withdrawn from the member's deposit account balance.