2019
FINANCIAL REPORT

CORPORATE ONE FEDERAL CREDIT UNION

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A LETTER TO OUR MEMBERS

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

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

Dear Members:

2019 was a year of milestones for Corporate One as we continued to carry out the values of our mission and vision and grow into an even stronger organization. It was the first full year with a new leadership team at the helm, and we worked together to achieve success in many key areas, continuing the important work of our long-term strategies on cash management, investments, funding, and payments. We had one of our strongest years financially, and, as a result, paid our Partner members the highest dividend level of perpetual contributed capital (PCC) in Corporate One's history. We proudly welcomed 21 new members into our family, and we further utilized the CUSO model to serve even more credit unions across the country.

Thanks to the ongoing support of our members and the dedication of our board of directors, executive leadership team, and staff, we are pleased to share our major accomplishments from 2019, which proved to be of great benefit for our members.

Strong financial growth
Corporate One recorded $13.4 million in net income, which marks our third highest annual net income over the past 20 years. This achievement enabled us to pay our Partner members $4.3 million in PCC dividends, which is 40 percent more than what they earned in 2018. Further, we added $9.1 million to retained earnings, which enabled us to surpass $100 million as of December 31, 2019. In addition, our total regulatory capital at the end of 2019 was $317.3 million, which is one of the highest levels in the corporate network. Our capital ratios are all above the well-capitalized ratio levels outlined in the NCUA's Regulation 704. Strong capital ratios are important for our members and prospective members when they perform their due diligence of Corporate One as they underscore our financial stability.

Advancing credit unions
Helping our members succeed and being a supportive, strategic partner continued to be a top priority in 2019, as we evolve and adapt in the rapidly changing financial services marketplace. We are proud to have supported credit unions in several ways. Whether it was as a leader in real-time payments or driving innovation through our CUSOs, we leveraged our history as a liquidity partner, innovator and payments expert to invest in strategic efforts to better enable our members to meet their objectives and remain relevant and competitive financial partners to their members. A few examples include the following:

- Launching Sherpa Technologies, a new credit union service organization (CUSO), created to lead credit unions on the member experience journey and help them develop a digital transformation plan.
- Continuing to execute on our real-time payments strategic initiative by becoming a Funding Agent for credit unions on The Clearing House's RTP® Network, a critical step in our effort to build a 24/7/365 liquidity management solution for RTP transactions.
- Continuing to nurture our wholly owned CUSOs to be incubators of ongoing creativity, innovation, and invention, creating opportunities to help even more credit unions thrive. For example, in 2019:
    - Lucro Commercial Solutions built their new award-winning, innovative, online loan portal, making business lending accessible anywhere, anytime.
    - Accolade Investment Advisory successfully transitioned its leadership to a new CEO and streamlined their asset/liability modeling solution and restructured their staff to put an even greater focus on helping credit unions solve balance-sheet management issues.

    - Sherpa built the infrastructure to provide direct connectivity to the RTP Network. In 2020, Sherpa and Corporate One are collaborating to test transactions through this Network. This is an exciting step toward making RTP payments access a reality for our member credit unions.
- Helping members invest more than $1 billion in SimpliCD and securities to achieve sound returns.
- Lowering our demand-loan rates and waiving pre-payment penalties on various term-loan specials for enhanced liquidity options.
- Continuing enhancements of our Investment & Funding Dashboard, which allows members to easily access their account balances and view a consolidated summary of their Corporate One balances, including overnight and term deposits, SimpliCD and Safekeeping holdings, and all funding balances.

We are proud of all our Corporate One family accomplished in 2019 on behalf of credit unions, and we're looking forward to the many opportunities we have now in 2020 to further contribute to their successes.

Expressing our gratitude

With much gratitude for the continued support of our members, and 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. Without a doubt, it is clear the changing marketplace will keep fueling the urgency credit unions have to embrace digital transformation, and we plan to support and help our members provide value to their respective memberships and further strengthen and advance credit unions within the larger financial industry.

Sincerely,

Melissa A. Ashley

Melissa A. Ashley
CEO/President

R. Lee Powell, Jr.

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

OUR MISSION:
To help our members succeed

OUR VISION:
To be the credit union industry's foremost partner of choice, surpassing expectations with expertise, sound financial practices, and innovative, best-in-class solutions offered by our corporate and our CUSOs, creating opportunities for our members and our communities to thrive.

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

Executive Summary

Financial stability is important for inspiring trust in an organization. Corporate One continues to balance the ability to produce consistent earnings with providing our members attractive dividend rates and valuable services while also investing in future product solutions. In 2019, we recognized net income of $13.4 million and after paying our partner members $4.3 million in Perpetual Contributed Capital (PCC) dividends, we added $9.1 million to retained earnings, which surpassed $100 million at December 31, 2019.

Our ability to build retained earnings period over period results in a strong regulatory capital position, which is the foundation of a corporate credit union's ability to protect its members' shares and certificates and to remain a valuable partner to credit unions. Providing liquidity to our members when they need it is one of Corporate One's fundamental priorities, and we can only do this if our balance sheet can support it. Further, a strong regulatory capital level, fueled by earnings, enables us to invest in solutions and investment options that help our members succeed in serving their members. For most credit unions, including corporate credit unions, success in serving members in today's digital age largely means embracing digital transformation and faster payments. Leveraging our history of innovation and payments expertise, Corporate One continues to invest in strategic initiatives that will enable credit unions to remain relevant and competitive financial partners to their members by more easily delivering meaningful digital member experiences and providing faster payment solutions. Our credit union service organization (CUSO), Sherpa Technologies, is a prime example of the pioneering, digital leadership we are building for credit unions in today's digital marketplace.

In 2019, net interest income was $37.2 million, which is an increase of $2.5 million from 2018 and our highest level to date. As credit unions' annual share growth outpaced their loan growth for the first time since 2012, we saw increased balances in 2019. Our 2019 average balances were approximately $300.0 million greater than the average balances of 2018 and were the primary driver for the increase in our 2019 net interest income over 2018. Partially offsetting the additional interest income from higher balances is a lower net interest margin as compared to 2018. The decrease in our net interest margin is primarily due to the decreased spread between our assets and liabilities. We hold a substantial pool of securities based on LIBOR and Prime rates. Typically, the LIBOR index is anticipatory of changes to the Fed Funds rate and during 2019, the Federal Open Market Committee (FOMC) cut rates three times as compared to the four increases in rates during 2018. The declining rate environment in 2019 resulted in a tighter spread between our assets and liabilities.

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)

	2019			2018		
	Average Balance	Interest or Dividends	Average Rate	Average Balance	Interest or Dividends	Average Rate
Interest-Earning Assets:						
Cash and cash equivalents	$ 947,973	$ 20,061	2.12%	$ 905,886	$ 15,910	1.76%
Other short-term investments	139,300	3,134	2.25%	58,940	1,238	2.10%
Investment in Financial Institutions	3,718	57	1.53%	2,388	27	1.13%
Loans	68,130	2,108	3.09%	93,347	2,354	2.52%
Securities	1,998,928	60,014	3.00%	1,757,153	48,397	2.75%
Other investments	137,739	4,289	3.11%	139,597	4,852	3.48%
TOTAL INTEREST-EARNING ASSETS	**$ 3,295,788**	**$ 89,663**	**2.72%**	**$ 2,957,311**	**$ 72,778**	**2.46%**
Interest- and Dividend-Bearing Liabilities and Members' Share Accounts:						
Overnight shares	$ 2,682,984	$ 44,369	1.65%	$ 2,146,203	$ 27,660	1.29%
Term shares	315,349	7,374	2.34%	441,801	8,828	2.00%
Other borrowings	27,460	697	2.54%	99,972	1,582	1.58%
TOTAL INTEREST- AND DIVIDEND-BEARNING LIABILITIES AND MEMBERS' SHARE ACCOUNTS	**$ 3,025,793**	**52,440**	**1.73%**	**$ 2,687,976**	**38,070**	**1.42%**
NET INTEREST INCOME		**$ 37,223**			**$ 34,708**	
NET INTEREST MARGIN			**1.13%**			**1.17%**

Net service fee income of $13.7 million is up slightly from our 2018 levels of $13.4 million. The growth in net service fee income over 2018 is primarily due to increased revenue from our wholly owned CUSOs, Lucro Commercial Solutions, LLC, Accolade Investment Advisory, LLC, and Sherpa Technologies, LLC, 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 those funds in instruments outside of cash, and, as such, the sales of securities and brokered certificates of deposit to members increased over 2018 resulting in an increase in the commission income we earn on those sales. This increase was partially offset due to a shift in our business model related to processing share drafts. As the financial markets continue to migrate towards providing 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 have transitioned from a business model, which supports this product through fixed operational costs, to an outsourced model. We have partnered with our CUSO Tranzcapture, LLC, to provide these services to our members using a variable costing method, which will result in lower costs as share draft volumes decrease. Compared to 2018, this change in our business model results in increased direct variable costs, which reduces our net service fee income but results in lower operating expenses related to share draft processing.

Operating expenses were $38.4 million in 2019, a four percent increase over 2018. This increase is primarily due to an increase in salaries and benefits. A portion of the increase in salaries and benefits expense is due to merit adjustments, as well as 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 our members valuable insights and solutions. Not only are we enhancing our digital/faster payment solutions for members through our wholly owned CUSO, Sherpa Technologies, 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. Partially offsetting the increase in expenses is a decrease in the amortization expense of intangible assets recorded as a result of our merger with another corporate in 2012. These intangible assets are being amortized on a schedule that is heavily front loaded and decreases over the useful lives of the assets. As a result, the amortization expense associated with these assets decreased $191,000 in 2019 from 2018.

In 2019, as part of our normal course of business, we sold securities and, as a result, we recorded net gains on sales of securities of $871,000.

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

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

	For the year ended December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Net interest income	$ 37,223	$ 34,708	$ 30,595	$ 29,255	$ 22,912
Service fee income, net	13,657	13,415	13,328	13,868	14,549
Total operating expenses	38,350	37,007	35,066	34,465	32,088
CORE EARNINGS BEFORE NET GAIN ON INVESTMENTS AND OTHER ITEMS	12,530	11,116	8,857	8,658	5,373
Other-than-temporary impairment losses on securities			(69)	(171)	(829)
Net gain on other investments	871	2,131	2,261	1,169	4,393
Other items*			2,072		
NET INCOME	**$ 13,401**	**$ 13,247**	**$ 13,121**	**$ 9,656**	**$ 8,937**

*Gain on sale of product line

Regulatory Capital Position

In 2010, the NCUA published the revisions to NCUA Rules and Regulations, Part 704, in the Federal Register that became effective in October 2011. These revisions required corporate credit unions to build minimum retained earnings by October 2013, 2016, and 2020. In addition, a new capital framework, including risk-based capital requirements were established; old capital instruments, Paid-in Capital (PIC) and Membership Capital Shares (MCS), were phased out; and two new capital instruments were established. All MCS has been paid back to our members with only a small amount of PIC remaining with a 2031 maturity date. The new capital instruments are PCC and NCA. The revisions also contained a multi-step, multi-year phase-in of certain definitions of the capital components, which change over time as various requirements are phased in. One such change, which became effective in October 2016, limited the amount of PCC included in Tier 1 Capital. This limitation is a function of both Moving Daily Average Net Assets (MDANA) and retained earnings. In 2020, this limitation was to become more severe, limiting the inclusion of PCC in Tier 1 Capital to an amount equal to the retained earnings held by a corporate.

On November 22, 2017, the NCUA board made further amendments to Part 704. Specifically, the amendments revise the definitions of retained earnings and Tier 1 capital and include a retained earnings ratio requirement. The effective date of these amendments was December 22, 2017.

The 2017 revision to the definition of retained earnings clarifies the components and adds Generally Accepted Accounting Principles (GAAP) equity acquired in a merger to the definition. Modifications to the Tier 1 capital definition include the removal of a requirement in 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings. The amendment further adds a benchmark for corporates to achieve a retained earnings ratio of 250 basis points. Prior to attaining the benchmark, the corporate would be required to deduct the amount of PCC from federally-insured credit unions exceeding retained earnings by 200 basis points. Prior to these amendments, all PCC issued by a corporate was limited. The change to limit only PCC from federally-insured credit unions increased our leverage ratio as of the 2017 effective date of the amendment.

Our total regulatory capital increased $10.9 million since December 31, 2018, to $317.3 million at December 31,2019, one of the highest levels in the corporate network. A strong capital level is important for several reasons. First, this capital protects members' shares and certificates. Second, we believe that one of the fundamental reasons that corporates exist is to provide liquidity to their members when they need it. Providing liquidity can only be achieved if a corporate's balance sheet can support it, and the balance sheet is limited by the amount of capital maintained by the corporate, further adding to the importance of a strong regulatory capital position. Third, strong levels of capital allow us to invest in technology to bring new products and services to our membership. Finally, our capital position results in Corporate One exceeding the capital requirements of the NCUA. As we continue to grow and expand our membership, new members cite our strong capital position as one of their requirements when looking for a corporate. Our strong capital ratios are important for our members and prospective members when they perform their due diligence of Corporate One.

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

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

	At December 31,				
	2019	**2018**	**2017**	**2016**	**2015**
Retained earnings	$ 100,905	$ 91,809	$ 81,599	$ 69,988	$ 61,103
PIC	20	20	20	20	20
MCS					100
PCC	223,365	221,249	219,442	219,174	219,181
NCA					82,700
TOTAL REGULATORY CAPITAL ACCOUNT BALANCES	324,290	313,078	301,061	289,182	363,104
Plus retained earnings of acquired entity*				869	869
Less amortized PIC, MCS and NCA					(82,800)
Less CUSO's (equity and cost)	(6,955)	(6,688)	(6,238)	(6,023)	(6,313)
TOTAL REGULATORY CAPITAL	$ 317,335	$ 306,390	$ 294,823	$ 284,028	$ 274,860
Unamortized PIC	(20)	(20)	(20)	(20)	(20)
Excluded PCC**			(43,404)	(73,763)	
TIER 1 CAPITAL	**$ 317,315**	**$ 306,370**	**$ 251,399**	**$ 210,245**	**$ 274,840**

*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.

As a result of our strong financial performance, our retained earnings has grown to over $100 million, and we exceeded the NCUA retained earnings ratio benchmark of 250 basis points. As such, all the PCC our members invested with Corporate One is included as Tier 1 capital at December 31, 2019.

Table Four summarizes Corporate One's regulatory capital ratios as of December 31, 2019, and 2018.

Table Four: Capital Ratios (Dollar amounts are in millions)

	December 31,	
	2019	**2018**
Retained earnings ratio	2.99%	3.04%
Leverage ratio	9.44%	10.17%
Tier 1 risk-based capital ratio	28.88%	33.66%
Total risk-based capital ratio	28.88%	33.66%
MDANA*	$ 3,372	$ 3,020
MDANRA**	$ 1,100	$ 911
Adjusted MDANA***	$ 3,366	$ 3,014

*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.

At the end of 2019, 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 2018 levels.

Table Five summarizes the NCUA requirements for the various ratios.

Table Five: Capital 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%

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.

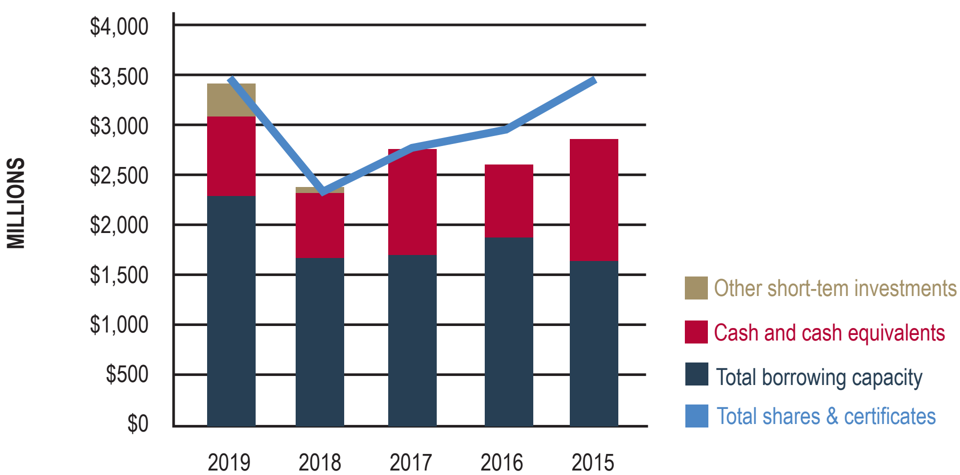
Liquidity Risk Management

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. To meet day-to-day member liquidity requirements, we keep a portion of our assets very liquid. In fact, as of December 31, 2019, we had $796.3 million in cash and cash equivalents, $341.4 million in other short-term investments and approximately $2.3 billion in remaining borrowing capacity (total existing lines less borrowings outstanding). This is significant given our total balance sheet of $3.8 billion and settlement and regular shares of $3.1 billion.

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

Figure One: Trended data on liquidity sources



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, 2019, our single largest depositor represented only six percent of our total member shares.

Further, we strive to buy securities with readily determined 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, 2019, was approximately $2.3 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $1.29 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 $300.0 million. This agreement is secured using select asset-backed securities as collateral, and we have recently tested this source to ensure that it represents a viable liquidity source. Also, we maintain $180.0 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.

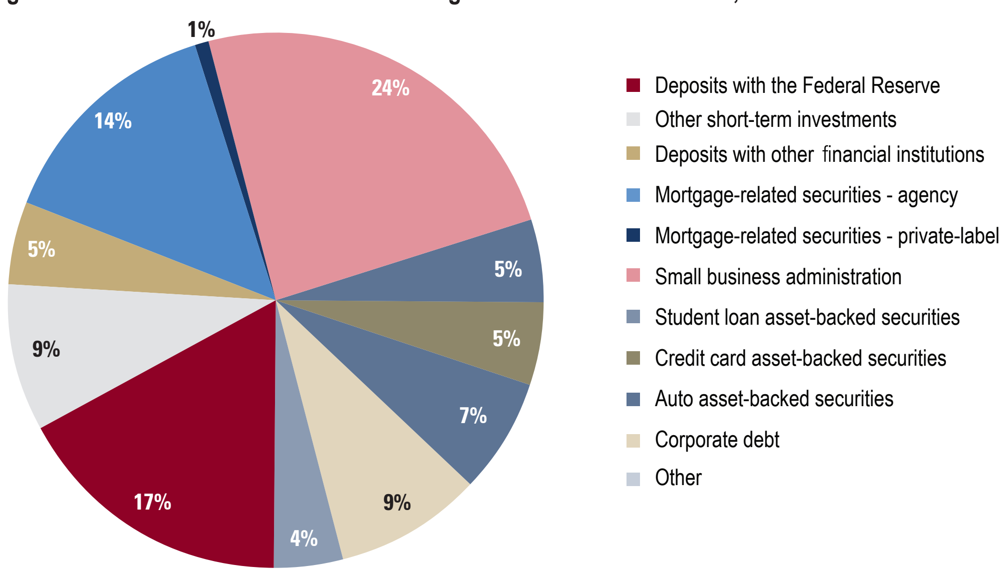
We have been granted primary credit with the Federal Reserve Bank. Primary credit is available to generally sound deposit institutions on a very short-term basis, typically overnight, at a rate above the FOMC's target rate for federal funds. All extensions of credit must be secured to the satisfaction 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 $516.9 million at December 31, 2019.

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 $3.8 billion at December 31, 2019. 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 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 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 that 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, 2019, is shown in Figure Two.

Figure Two: Diversification of interest-earning assets as of December 31, 2019



As shown in Figure Two, our portfolio remains well diversified. Seventeen percent of the amortized cost of our interest-earning assets is in cash held at the Federal Reserve Bank. Another 76 percent of our portfolio is cash and investments held at other financial institutions, other short-term investments, 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.

We review our entire portfolio of securities to determine if any security is other than temporarily impaired. During the year ended December 31, 2019, we did not record OTTI charges on any security, and at year end we held only six securities previously determined to be other-than-temporarily impaired. In addition to these six private-label mortgage-backed securities, we held 15 private label mortgage-backed securities acquired through a merger with another corporate, which at acquisition there was evidence of deterioration of credit quality since origination, and it was probable, at acquisition, that all contractually required payments would not be collected. These remaining 15 purchased-credit impaired securities were all acquired at a discount, and based on our estimates of future credit losses, we allocated a portion of the discount as a non-accretable discount, which is available to absorb principal shortfalls as they occur. During the first two months of 2020, we saw the opportunity to reposition our investment portfolio and sold 40 private-label mortgage-backed securities 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, with gross gains of $7.1 million and gross losses of $330,000. Of the securities sold, one was previously deemed other than temporarily impaired, and 14 were purchased-credit impaired securities.

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 2019, we sold $176.4 million of securities, realizing a net gain of $871,000. These sales were a result of repositioning our portfolio into other market sectors. Overall, the market values of our securities held throughout 2019, ending the year in a net unrealized gain (AOCI) position of $7.9 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, 2019, and 2018 is shown in Table Six.

Table Six: 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, 2019*				
300 bps rise in rates	$ 321,091	8.51%	$ (13,664)	-4.08%
Base scenario	$ 334,735	8.83%		
200 bps fall in rates	$ 339,450	8.93%	$ 4,715	1.41%
As of December 31, 2018*				
300 bps rise in rates	$ 304,546	11.42%	$ (8,881)	-2.83%
Base scenario	$ 313,427	11.70%		
200 bps fall in rates	$ 320,006	11.92%	$ 6,579	2.10%

* 300 bps decline did not apply in the interest rate environment present on December 31, 2019, and 2018.

The increase in our NEV from December 31, 2018, is primarily due to an increase in our net income and in the fair values of the securities we hold. 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, 2019, 90 percent of our liabilities are overnight shares that reprice daily while only 10 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, 2019, 30 percent of our assets were held in cash, which reprices 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, 94 percent of the par value amount of our securities were variable-rate securities and reset either monthly or quarterly, predominantly based upon the LIBOR and Prime indices. Of these variable-rate securities, 18 percent had interest rate caps that were fixed at the time of issuance, and the caps range from 5 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 stressed 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.

Operational Risk Management

Corporate One provides a variety of products and services to our members and is reliant upon the ability of our employees and systems to process a large number of transactions. Accordingly, Corporate One is exposed to a variety of operational risks, including errors and omissions, business interruptions, improper procedures, and vendors that do not perform in accordance with outsourcing arrangements. These risks are less direct than credit and interest rate risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. 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.

To mitigate and control operational risk, Corporate One 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 reports 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.

SUPERVISORY COMMITTEE REPORT

Corporate One's 2019 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,
Appointed December 2019

Hilary Eisbrenner,
Space Coast CU,
Resigned October 2019

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, 2019. 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, 2019.

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.

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, 2019, 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, 2019, 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, 2019, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated March 24, 2020.

Melissa A. Ashley

Melissa A. Ashley
President, Chief Executive Officer

Denise Brown
Executive Vice President, Chief Financial Officer

Columbus, Ohio
March 24, 2020

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, 2019, 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, 2019, 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 2019 consolidated financial statements of Corporate One Federal Credit Union, and our report dated March 24, 2020, expressed an unmodified opinion on those consolidated financial statements.

Crowe LLP

Crowe LLP
Columbus, Ohio
March 24, 2020

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, 2019 and 2018, 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 consolidated 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2019, 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 reported dated March 24, 2020 expressed an unmodified opinion.

Crowe LLP

Crowe LLP
Columbus, Ohio
March 24, 2020

(Table dollar amounts in thousands)

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2019	**2018**
ASSETS		
Cash and cash equivalents	$ 796,297,846	$ 673,614,806
Other short-term investments	341,436,615	29,763,792
Investments in financial institutions	31,205,400	50,367,600
Available-for-sale securities, at fair value	2,471,510,240	1,731,655,383
Loans	61,785,233	98,826,118
Accrued interest receivable	7,277,798	7,070,231
Goodwill	3,401,412	3,401,412
Intangible assets	4,716,511	6,883,247
Other assets	66,211,363	62,749,662
TOTAL ASSETS	**$ 3,783,842,418**	**$ 2,664,332,251**
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Settlement and regular shares	$ 3,118,587,692	$ 2,034,107,863
Share certificates	326,198,845	313,459,004
Dividends and interest payable	259,792	352,914
Accounts payable and other liabilities	6,663,499	6,962,417
TOTAL LIABILITIES	**3,451,709,828**	**2,354,882,198**
Members' equity:		
Perpetual contributed capital	223,365,281	221,249,122
Retained earnings	100,905,135	91,809,283
Accumulated other comprehensive income (loss)	7,862,174	(3,608,352)
TOTAL MEMBERS' EQUITY	**332,132,590**	**309,450,053**
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 3,783,842,418**	**$ 2,664,332,251**

See accompanying notes to consolidated financial statements.

(Table dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2019	**2018**
Interest income:		
Investments and securities	$ 87,554,659	$ 70,423,871
Loans	2,108,442	2,353,879
TOTAL INTEREST INCOME	89,663,101	72,777,750
Dividend and interest expense:		
Share accounts	51,742,419	36,487,587
Other borrowings	697,161	1,582,276
TOTAL DIVIDEND AND INTEREST EXPENSE	52,439,580	38,069,863
NET INTEREST INCOME	37,223,521	34,707,887
SERVICE FEE INCOME, NET	13,657,247	13,415,607
Net gain on investments:		
Net gain on sales of securities	870,519	2,131,138
TOTAL NET GAIN ON INVESTMENTS	870,519	2,131,138
Operating expenses:		
Salaries and employee benefits	23,860,584	22,467,057
Office operations and occupancy expense	8,399,016	7,813,913
Other operating expenses	3,923,692	4,368,133
Amortization of intangibles expense	2,166,736	2,358,055
TOTAL OPERATING EXPENSES	38,350,028	37,007,158
NET INCOME	**$ 13,401,259**	**$ 13,247,474**

See accompanying notes to consolidated financial statements.

(Table dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2019	**2018**
Net Income	**$ 13,401,259**	**$ 13,247,474**
Other comprehensive income (loss):		
Change in net unrealized gain (loss) on available-for-sale securities	12,341,045	(11,718,261)
Reclassification adjustment recognized in earnings for net gain from sales of securities	(870,519)	(2,131,138)
Total other comprehensive income (loss)	11,470,526	(13,849,399)
COMPREHENSIVE INCOME (LOSS)	**$ 24,871,785**	**$ (601,925)**

See accompanying notes to consolidated financial statements.

(Table dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
BALANCE AT JANUARY 1, 2018	**$ 219,441,538**	**$ 81,598,817**	**$ 10,241,047**	**$ 311,281,402**
Net Income		13,247,474		13,247,474
Other comprehensive loss			(13,849,399)	(13,849,399)
Issuance of PCC	1,807,584			1,807,584
Dividends on perpetual contributed capital		(3,037,008)		(3,037,008)
BALANCE AT DECEMBER 31, 2018	**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**

See accompanying notes to consolidated financial statements.

(Table dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2019	**2018**
Cash flows from operating activities:		
Net income	$ 13,401,259	$ 13,247,474
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,458,494	1,548,014
Amortization of intangibles	2,166,736	2,358,055
Net accretion	(2,347,451)	(2,418,343)
Net gain on sales of securities	(870,519)	(2,131,138)
Net change in accrued interest receivable	(207,567)	(1,998,163)
Net change in dividends and interest payable	(93,122)	151,567
Other, net	(601,645)	2,267,273
NET CASH PROVIDED BY OPERATING ACTIVITIES	12,906,185	13,024,739
Cash flows from investing activities:		
Net change in investments in financial institutions	19,162,200	(7,233,600)
Available-for-sale securities:		
Sales	176,419,284	316,687,503
Maturities and principal pay downs	364,378,979	280,959,352
Purchases	(1,268,952,101)	(495,276,642)
Change in other short-term investments	(311,672,823)	(29,763,792)
Investment in CUSOs		(500,000)
Dividends received from investments in CUSOs		240,000
Net change in loans	37,040,885	18,736,438
Net change in NCUSIF share insurance deposit	(28,059)	(17,048)
Net purchase of property and equipment	(1,601,932)	(1,354,635)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(985,253,567)	82,477,576
Cash flows from financing activities:		
Net change in borrowed funds		(50,000,000)
Net change in shares and deposits	1,097,219,670	(444,930,917)
Issuance of perpetual contributed capital	2,116,159	1,807,584
Dividends on perpetual contributed capital	(4,305,407)	(3,037,008)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,095,030,422	(496,160,341)
Net increase (decrease) in cash and cash equivalents	122,683,040	(400,658,026)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	673,614,806	1,074,272,832
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 796,297,846**	**$ 673,614,806**
Supplemental disclosure:		
Dividends and interest paid	$ 56,838,108	$ 40,955,304

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 $254.2 million and $283.9 million at December 31, 2019 and 2018, 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.

(Table dollar amounts in thousands)

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Specifically, management has made assumptions in 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.

(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 have elected to voluntarily hold Reg D reserves in order to gain access to the Federal Reserve Discount Window. Accordingly, Corporate One is required to maintain cash or deposits with the Federal Reserve Bank. At December 31, 2019 and 2018, 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 and are unsecured and pay a fixed rate of interest. As of December 31, 2019, all commercial paper held matures April 30, 2020.

(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.

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

(Table dollar amounts in thousands)

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) 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.

(h) 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.

(i) 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 2019, capitalized costs related to internally developed software were $382,000. No costs were capitalized during 2018. Amortization begins when the software is ready for service and continues on the straight-line method over the estimated useful life of the software.

(j) 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.

(Table dollar amounts in thousands)

(k) 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.

(l) 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.

(m) 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.

(n) 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 settlement services. Associate members may earn lower rates than Partner members on their investments with Corporate One and pay fees on settlement 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, 2019 and 2018, there were $20,000 of shares on notice and are included in liabilities under share certificates in the financial statements.

(Table dollar amounts in thousands)

(o) Retained Earnings

Retained earnings represent earnings not distributed as dividends to members.

(p) 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. Comprehensive income (loss) also includes non-credit losses on available-for-sale securities related to other-than-temporary impairment.

(q) Service Fees

Service fees are 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.

(r) 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.

(s) Subsequent Events

Management has performed an analysis of activities and transactions subsequent to December 31, 2019, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2019. Management has performed such analysis through March 24, 2020, the date the financial statements are available to be issued. 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 for a net gain on sales of securities of $6.8 million, with gross gains of $7.1 million and gross losses of $330,000. $29.9 million of the current par of the securities sold were purchase credit impaired. All the securities sold were classified as available-for-sale and were sold to reposition our investment portfolio into other classes of securities. This event did not result in an adjustment to the December 31, 2019, consolidated financial statements.

In December 2019, a novel strain of coronavirus surfaced in Wuhan, China, and has spread around the world, with resulting 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. As of the date these financial statements were available to be issued, this event did not result in an adjustment to the December 31, 2019, consolidated financial statements.

(t) Regulatory Pronouncements

On October 20, 2010, the NCUA published revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, in the Federal Register. The major revisions involve 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.

(Table dollar amounts in thousands)

Most of the investment prohibitions and other credit and asset/liability management requirements were effective January 18, 2011. NCUA recognized that some corporates may hold investments that are in violation of one or more of these new prohibitions and have directed such corporates to follow the investment action plan provisions of NCUA Rules and Regulations Part 704.10. At December 31, 2019, Corporate One no longer held any prohibited securities as they were sold throughout the year. At December 31, 2018, Corporate One held securities that did not meet certain requirements of the new regulation and as such, adhered to Part 704.10 and filed the required Investment Action Plans (IAP) with the NCUA. The amortized cost and fair value of such securities at December 31, 2018 was $36.5 million and $33.9 million, respectively.

The new capital requirements went into effect October 20, 2011. The new Regulation Part 704 defined new capital instruments and set forth a process for phasing out MCS and PIC. It also established new capital ratio requirements. 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.

(u) Recent Accounting Pronouncements

On January 1, 2019, Corporate One adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with members that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. The majority of Corporate One's revenues are generated from interest income, including securities and loans, and are outside the scope of ASC 606. Corporate One's services falling within the scope of ASC 606 are presented within Service Fee Income and are recognized as revenue as Corporate One satisfies its obligation to the member. Services within the scope of ASC 606 include payment services, brokerage services, CUSO services and other. Refer to Note 16 for further discussion on Corporate One's accounting policies for revenue sources within the scope of ASC 606.

Corporate One adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of January 1, 2019. Results for reporting periods beginning after January 1, 2019 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the recognition of any of the in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

(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, 2019 or 2018, for member loans based on management's continuing review and evaluation of the loan portfolio. Corporate One incurred no loan losses in either 2019 or 2018 on member loans, and considers no member loans impaired as of, or during the years ended December 31, 2019 and 2018.

	2019	2018
Member loans:		
Term	$ 18,060	$ 72,900
Warehouse	41,045	12,800
Demand	1,329	10,102
Settlement	1,351	3,024
TOTAL LOANS	**$ 61,785**	**$ 98,826**

(Table dollar amounts in thousands)

(4) INVESTMENTS IN FINANCIAL INSTITUTIONS

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

	2019	2018
Federal Home Loan Bank stock	$ 15,352	$ 36,992
Certificates of deposit	15,853	13,376
TOTAL INVESTMENTS IN FINANCIAL INSTITUTIONS	**$ 31,205**	**$ 50,368**

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, 2019 and 2018.

As of December 31, 2019 and 2018, 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, 2019, are summarized as follows:

Year of Maturity	Balance
2020	$ 10,648
2021	2,725
2022	248
2023	992
2024	1,240
TOTAL CERTIFICATES OF DEPOSIT	**$ 15,853**

(5) SECURITIES

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

	2019			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale securities:				
Corporate debt securities	$ 387,469	$ 1,200	$ (674)	$ 387,995
Small business administration (SBA) securities	881,358	8,487		889,845
Mortgage-related securities	561,953	8,257	(1,274)	568,936
Asset-backed securities	632,868	1,240	(9,374)	624,734
TOTAL AVAILABLE-FOR-SALE SECURITIES	**$ 2,463,648**	**$ 19,184**	**$ (11,322)**	**$ 2,471,510**

(Table dollar amounts in thousands)

	2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Corporate debt securities	$ 389,944	$ 128	$ (4,899)	$ 385,173
Small business administration (SBA) securities	504,885	860	(1,936)	503,809
Mortgage-related securities	427,739	12,441	(3,599)	436,581
Asset-backed securities	412,696	1,204	(7,808)	406,092
TOTAL AVAILABLE-FOR-SALE SECURITIES	**$ 1,735,264**	**$ 14,633**	**$ (18,242)**	**$ 1,731,655**

Proceeds from the sale of available-for-sale securities were $176.4 million in 2019. Gross gains of $2.85 million and gross losses of $1.98 million were recorded on securities during 2019. Proceeds from the sale of available-for-sale securities were $316.7 million in 2018. Gross gains of $2.2 million and gross losses of $90,000 were recorded on securities during 2018. In January and February 2020, Corporate One sold 40 private-label mortgage-backed securities with a current par at the time of the sale of $52.1 million for a net gain on sales of securities of $6.8 million, with gross gains of $7.1 million and gross losses of $330,000. 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. This event did not result in an adjustment to the December 31, 2019, consolidated financial statements.

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. SBA securities consist primarily of securitized loans to small businesses used for the purchase of land, buildings, equipment or new construction.

The expected distributions of securities at December 31, 2019, 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 entities 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	$ 202,432	$ 202,580	
Due after one year through five years	695,500	696,289	
Due after five years through ten years	20,000	20,213	
Securities with prepayment features:			
Residential mortgage-backed securities:			
Agency	419,054	418,470	2.06
Non-agency	42,899	50,234	2.79
Asset-backed securities	202,405	193,879	6.04
SBA securities	881,358	889,845	3.09
TOTAL	**$ 2,463,648**	**$ 2,471,510**	

(Table dollar amounts in thousands)

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

At December 31, 2019, approximately 94 percent of the par value amount, or $2.33 billion, of Corporate One's securities, with a fair market value of $2.32 billion, were variable-rate securities, the majority of which had interest rates that reset monthly or quarterly, based upon either LIBOR or Prime. Of these $2.33 billion of variable-rate securities, 18 percent of the par value amount, or $427.7 million of such securities, with a fair market value of $425.7 million, had interest rate caps that were fixed at the time of issuance and the caps range from 5 percent to 16 percent.

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:

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)	$ 69,357	$ (642)	$ 79,325	$ (674)
Mortgage-related securities	182,770	(724)	29,135	(550)	211,905	(1,274)
Asset-backed securities	129,331	(187)	169,526	(9,187)	298,857	(9,374)
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$ 322,069**	**$ (943)**	**$ 268,018**	**$ (10,379)**	**$ 590,087**	**$ (11,322)**

2018						
	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	$ 369,454	$ (4,899)			$ 369,454	$ (4,899)
Small business adminstration	393,401	(1,936)			393,401	(1,936)
Mortgage-related securities	45,409	(311)	$ 35,310	$ (3,288)	80,719	(3,599)
Asset-backed securities	93,926	(606)	193,545	(7,202)	287,471	(7,808)
TOTAL TEMPORARILY IMPAIRED SECURITIES	**$ 902,190**	**$ (7,752)**	**$ 228,855**	**$ (10,490)**	**$ 1,131,045**	**$ (18,242)**

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. The gross unrealized losses on our corporate debt was due to price volatility at year end. 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 2019 and 2018.

The NCUA Rules and Regulations Part 704 that became effective January 18, 2011 contain investment prohibitions and other credit and asset liability management requirements. NCUA recognized that some corporates may hold investments that are in violation of one or more of these prohibitions and have directed such corporates to

(Table dollar amounts in thousands)

follow the investment action plan provisions of NCUA Rules and Regulations Part 704.10. At December 31, 2019, Corporate One no longer held any prohibited securities as they were sold throughout the year. At December 31, 2018, Corporate One held securities that did not meet certain requirements of the new regulation and as such, adhered to Part 704.10 and filed the required Investment Action Plans (IAP) with the NCUA. The amortized cost and fair value of such securities at December 31, 2018 was $36.5 million and $33.9 million, respectively.

Gross unrealized losses on corporate debt securities represent 6.0 percent of our gross unrealized losses at December 31, 2019. Of the 2 corporate debt securities we own that were in an unrealized loss position, both of those securities are dual rated A or better.

Gross unrealized losses on asset-backed securities represent 83 percent of our gross unrealized losses at December 31, 2019. The amortized costs, fair values, credit grades and WAL of asset-backed securities at December 31, 2019, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade	WAL
Student loans:							
FFELP*	$ 200,959	$ 192,441	$ 747	$ (9,265)	AAA	B	6.08
Private	1,446	1,438		(8)	AAA	A	1.02
Credit cards	220,438	220,717	305	(26)	AAA	AAA	2.32
Automobiles	210,025	210,138	188	(75)	AAA	AAA	1.45
ASSET-BACKED SECURITIES	**$ 632,868**	**$ 624,734**	**$ 1,240**	**$ (9,374)**			

*Federal Family Education Loan Program

Of the 42 asset-backed securities we own that were in an unrealized loss position and are not mortgage related, 27 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.

The remaining 11 percent of the gross unrealized losses on available-for-sale securities at December 31, 2019, is related to residential mortgage-backed securities and home equity asset-backed securities. The amortized costs, fair values and credit grades of mortgage-related securities at December 31, 2019, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade
Government agency insured	$ 519,054	$ 518,702	$ 446	$ (798)		
Private:						
Prime collateral	759	775	16		BB	B
Near-prime collateral*	13,737	17,330	3,629	(36)	AAA	D
Sub-prime collateral**	22,059	25,584	3,821	(296)	AAA	C
Insured	6,344	6,545	345	(144)	AAA	CC
MORTGAGE-RELATED SECURITIES	**$ 561,953**	**$ 568,936**	**$ 8,257**	**$ (1,274)**		

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

(Table dollar amounts in thousands)

At December 31, 2019, of the 38 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: IAP securities, 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 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, 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.

As of December 31, 2018, we owned 23 mortgage-related securities that were considered other-than-temporarily impaired. These securities had a total par value of approximately $48.2 million at December 31, 2018.

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, 2019 and 2018.

	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2019	Accumulated Other Comprehensive Income (Loss) as of December 31, 2019	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2018	Accumulated Other Comprehensive Income (Loss) as of December 31, 2018
Available-for-sale securities:				
Corporate debt securities		$ 526		$ (4,771)
Mortgage-related securities - other-than-temporarily impaired		5,027		5,016
Mortgage-related securities		1,956		3,826
Asset-backed securities		(8,134)		(6,604)
SBA securities		8,487		(1,075)
TOTAL AVAILABLE-FOR-SALE SECURITIES		**$ 7,862**		**$ (3,608)**

(Table dollar amounts in thousands)

The following table details cumulative credit losses on other-than-temporarily impaired debt securities for the periods ended December 31, 2019 and 2018.

	Cumulative Credit Losses on Debt Securities	
	2019	**2018**
Beginning balance, January 1,	$ (21,924)	$ (39,877)
Reductions for previous credit losses realized on securities sold or matured during the year	19,591	17,543
Reduction due to increases in expected cash flows	467	410
ENDING BALANCE, DECEMBER 31,	**$ (1,866)**	**$ (21,924)**

Principal Losses and Recoveries

Through December 31, 2018, we had total cumulative principal shortfalls of approximately $35.9 million on 43 securities. In 2019, we had an additional $740,300 in principal shortfalls, resulting in total cumulative principal shortfalls of $36.7 million on 45 securities through December 31, 2019. 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.

As a result of the improving economy, ongoing rehabilitation of monoline insurers and various legal actions within the private-label mortgage security markets, beginning in 2014, we began to receive partial principal repayments. These partial repayments from the monline insurers, various class action law suits or liquidation payouts resulted in an increase in the cash flows of the affected securities. These payments, which were approximately $1.1 million and $419,000 during 2019 and 2018, respectively, are recorded as a component of net interest income in the accompanying consolidated statements of income. We do not anticipate additional settlement 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. This count has decreased since acquisition by five securities due to sales and maturities.

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, 2019 and 2018, respectively, is as follows:

	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)		
Sale of Securities	(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**

(Table dollar amounts in thousands)

2018					
	Amortized Cost	Par Value	Nonaccretable Discount	Accretable Discount	Fair Value
At January 1,	$ 25,551	$ 51,495	$ 16,450	$ 9,494	$ 35,216
Accretion	1,757			(1,757)	
Paydowns	(7,149)	(7,149)			(7,149)
Principal shortfalls		(235)	(235)		
Change due to improved projected cash flows			(973)	973	
Net change in fair value					661
Balance at December 31,	**$ 20,159**	**$ 44,111**	**$ 15,242**	**$ 8,710**	**$ 28,728**

The remaining accretable discount on these purchased credit impaired securities is recognized as an increase to interest income using the interest method over the remaining lives of these securities.

(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:

	2019	2018
Primary Financial Company LLC	$ 4,372	$ 4,256
eDoc Innovations, Inc.	2,083	1,932
Tranzcapture LLC	250	250
CULedger, LLC	250	250
TOTAL NON-MARKETABLE EQUITY INVESTMENTS	**$ 6,955**	**$ 6,688**

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 net service fee income in the accompanying consolidated statements of income, was $116,000 and $146,000 in 2019 and 2018, 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 net service fee income in the accompanying consolidated statements of income, $1.41 million in 2019 and $1.30 million in 2018 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 net service fee income in the accompanying consolidated statements of income, was $151,000 and $43,650 in 2019 and 2018, respectively.

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.

(Table dollar amounts in thousands)

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, 2019, 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 as of December 31, 2019, we do not believe goodwill is impaired.

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:

	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**

	2018	
	Gross Carrying Amount	**Accumulated Amortization**
Core deposit intangibles	$ 24,962	$ 20,001
Member relationship intangibles	4,200	2,278
TOTAL INTANGIBLE ASSETS	**$ 29,162**	**$ 22,279**

(Table dollar amounts in thousands)

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

Year	Annual amortization expense
2020	$ 1,885
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. As of December 31, 2019, 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.

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

	2019	2018
Buildings and improvements	$ 10,194	$ 9,890
Equipment	8,369	11,137
	18,563	21,027
Less: Accumulated depreciation	9,103	11,711
NET PROPERTY AND EQUIPMENT	**$ 9,460**	**$ 9,316**

(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, 2019 and 2018, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $1,401 million and $835.9 million, respectively, which provided a borrowing capacity of approximately $1,286 million and $810.5 million, respectively. At December 31, 2019 and 2018, 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, 2019 and 2018, Corporate One had securities held in safekeeping at the Federal Reserve Bank with fair values of approximately $539.4 million and $588.5 million, respectively, which provided a borrowing capacity of approximately $516.9 million and $555.22 million, respectively. At December 31, 2019 and 2018, there were no amounts outstanding on the line of credit with the Federal Reserve Bank.

(Table dollar amounts in thousands)

Corporate One also maintains reverse repurchase agreements with certain parties allowing for additional liquidity of approximately $300 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, 2019 or 2018. Average borrowings under reverse repurchase agreements were approximately $172,500 during 2019 and $207,000 during 2018. There was no amount outstanding at any month-end during 2019 or 2018.

We also maintain $180.0 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, 2019 or 2018.

(10) SHARE ACCOUNTS AND MEMBER CAPITAL ACCOUNTS

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

	2019	2018
	Balance	Balance
Settlement and regular shares	$ 3,118,588	$ 2,034,108
Share certificates	326,199	313,459
TOTAL SHARE ACCOUNTS	**$ 3,444,787**	**$ 2,347,567**
PCC	$ 223,365	$ 221,249
TOTAL MEMBER CAPITAL ACCOUNTS	**$ 223,365**	**$ 221,249**

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, 2019 and 2018, insured member accounts totaled $157.0 million and $148.9 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, 2019, are summarized as follows:

Year of Maturity	Balance
2020	$ 246,322
2021	14,857
2022	65,000
2031	20
TOTAL SHARE CERTIFICATES	**$ 326,199**

Share certificates that meet or exceed the NCUSIF insurance limit of $250,000 at December 31, 2019 and 2018 were $289.6 million and $289.4 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.

(Table dollar amounts in thousands)

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, 2019 and 2018, these financial instruments included outstanding advised lines of credit of approximately $3.8 billion and $3.6 billion, respectively. There were no outstanding committed lines of credit at December 31, 2019 or 2018.

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. In 2019, the Board voted that it intends to pay in April 2020 an additional 4 percent one-time discretionary contribution to be awarded to employees. There was no additional discretionary contributions for 2018. Retirement expense was approximately $1,661,500 in 2019 and $906,000 in 2018.

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 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. During 2015, Corporate One purchased annuities through Massachusetts Mutual Life Insurance Company to fund the remaining life insurance premiums due under these policies. The split dollar loan agreements were amended to include the amounts related to the purchase of the annuities as well as modifications to certain terms and the interest rate. The loans were modified and have a 2.19 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, 2019 and 2018 was $570,000 and $566,000, respectively. Total split dollar loans outstanding at December 31, 2019 and 2018 were $27.1 million and $26.5 million, respectively, and are included in other assets in the accompanying consolidated balance sheets. In addition, beginning in 2015, one executive was provided with a 457(f) plan. The expense of the plan was recognized over the service period with $414,000 recognized in 2018, and is included in salaries and employee benefits in the accompanying consolidated statements of income. The benefit was fulfilled in 2019 and no amounts remain payable to the executive.

(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.

(Table dollar amounts in thousands)

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.

The fair value of available-for-sale securities other than residential mortgage-backed or home equity 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 home equity 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, 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	$ 387,995	$ 318,637	$ 69,358	
Mortgage-related securities - agency	518,702		518,702	
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	
TOTAL AVAILABLE-FOR-SALE SECURITIES	**$ 2,471,510**	**$ 318,637**	**$ 2,121,903**	**$ 30,970**

(Table dollar amounts in thousands)

Assets measured at fair value on a recurring basis are summarized below as of December 31, 2018:

	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	$ 385,173	$ 316,546	$ 68,627	
Mortgage-related securities - agency	340,582		340,582	
Mortgage-related securities - private	95,999		24,060	$ 71,939
SBA securities	503,809		503,809	
Asset-backed securities:				
Student loans - FFELP	229,690		229,690	
Student loans - private	2,601		2,601	
Credit cards	138,187		138,187	
Automobiles	35,614		35,614	
TOTAL AVAILABLE-FOR-SALE SECURITIES	**$ 1,731,655**	**$ 316,546**	**$ 1,343,170**	**$ 71,939**

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, 2019 and 2018.

	Total Fair Value of Available-for-Sale Securities Priced Using Significant Unobservable Inputs (Level 3)	
	2019	**2018**
Beginning balance January 1,	$ 71,939	$ 123,095
Changes in fair values of Level 3 securities due to change in price:		
Mortgage-related securities - private	281	(272)
Decreases due to net gain on sales of securities:		
Net gain on sales of securities	(531)	(780)
Decreases due to sales, maturities and paydowns:		
Mortgage-related securities - private	(41,019)	(35,689)
Net transfers in and/or (out) of Level 3:		
Mortgage-related securities - private		(13,840)
Student loans - private	300	(575)
ENDING BALANCE DECEMBER 31,	**$ 30,970**	**$ 71,939**

We classify the fair value of those securities where there is a lack of observable market data as Level 3. 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. As of December 31, 2018, increased market activity resulted in the transfer to Level 2 of fourteen private-label mortgage-backed securities and one private-label student loan security with a fair value of $11.39 million.

(Table dollar amounts in thousands)

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2019 and 2018:

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**				

2018					
	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Mortgage-related securities - private	$ 71,939	Discounted cash flow	Constant prepayment rate Probability of default Loss severity	(0-100) (0-63) (0-90)	12.17 3.53 29.33
TOTAL LEVEL 3 SECURITIES	**$ 71,939**				

As of December 31, 2019, the level 3 securities consist of 33 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. Periodic updates are made to this Rule, and as of December 22, 2017, certain amendments became effective, such as the definitions of retained earnings and Tier 1 capital, as well as the addition of a new definition for a retained earnings ratio.

The 2017 revision to the definition of retained earnings clarifies the components and adds Generally Accepted Accounting Principles (GAAP) equity acquired in a merger to the definition. Modifications to the Tier 1 capital definition includes the removal of a requirement in 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings. The amendment further adds a benchmark for corporates to achieve a retained earnings ratio of 250 basis points. Prior to attaining the benchmark, the corporate would be required to deduct the amount of PCC from federally-insured credit unions exceeding retained earnings by 200 basis points. Prior to these amendments all PCC issued by a corporate was limited. The change to limit only PCC from federally-insured credit unions increases our Leverage and Tier 1 risk-based capital ratios as of the effective date of the amendment.

(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:

	2019	2018
Retained Earnings	$ 100,905	$ 91,809
PCC	223,365	221,249
Less: CUSO investments (equity and cost)	(6,955)	(6,688)
Tier 1 Capital	317,315	306,370
Unamortized PIC	20	20
Tier 2 Capital	20	20
TOTAL CAPITAL	**$ 317,335**	**$ 306,390**

As of December 31, 2019, MDANA and MDANRA were $3.37 billion and $1.10 billion, respectively. As of December 31, 2018, MDANA and MDANRA were $3.02 billion and $911 million, 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, 2019 and 2018, adjusted MDANA (used for the leverage ratio) was $3.37 billion and $3.01 billion, respectively.

The following summarizes Corporate One's capital ratios as of December 31, 2019 and 2018.

	December 31, 2019	December 31, 2018
Retained earnings ratio	2.99%	3.04%
Leverage ratio	9.44%	10.17%
Tier 1 risk-based capital ratio	28.88%	33.66%
Total risk-based capital ratio	28.88%	33.66%

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, 2019 and 2018, 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

(Table dollar amounts in thousands)

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 2019 and 2018, we complied with the NEV sensitivity requirement and the NEV ratio requirement.

(15) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2019 and 2018.

	Unrealized Gains and Losses on Available-for-Sale Securities	
	2019	**2018**
Beginning balance – accumulated other comprehensive (loss) income by component	$ (3,608)	$ 10,241
Other comprehensive income (loss) before reclassification	12,341	(11,718)
Amounts reclassified from accumulated other comprehensive income (loss)	(871)	(2,131)
Net current period other comprehensive income (loss)	11,470	(13,849)
ENDING BALANCE – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT	**$ 7,862**	**$ (3,608)**

The following are significant amounts reclassified out of accumulated other comprehensive income (loss) for the years ending December 31, 2019 and 2018.

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2019	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2018	Affected Line Item in the Consolidated Statements of Income
Reclassification adjustment recognized in earnings for net gain from sales of securities	$ (871)	$ (2,131)	Net gain on sales of securities
TOTAL RECLASSIFICATIONS FOR THE PERIOD	**$ (871)**	**$ (2,131)**	

(Table dollar amounts in thousands)

(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 Service Fee Income, Net. The following table presents Corporate One's sources of Service Fee Income for the twelve months ended December 31, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	Year Ended December 31,	
	2019	2018**
Service fee income, net		
CUSO income	$ 5,850	$ 4,679
Payment services	3,805	5,275
Brokerage services	1,647	1,451
Other*	1,604	2,011
Service fee income within the scope of other GAAP topics	751	
TOTAL SERVICE FEE INCOME, NET	**$ 13,657**	**$ 13,416**

*The Other category includes vault and securities safekeeping services and miscellaneous member fees.
**Corporate One elected the modified retrospective approach of adoption; therefore, prior period balances are presented under legacy GAAP. The adoption of ASC 606 did not result in a change to the recognition of any of the in-scope revenue streams.

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 providers and (ii) do not control the services rendered to the members in certain arrangements. In those arrangements, we recognized net CUSO income of $550,000 included in CUSO income above, of which $1.64 million represents gross CUSO income and $1.09 million represents third-party costs incurred to provide these services. Where our wholly-owned CUSOs act as principals, third-party costs of $439,000 are included in other operating expenses in the accompanying consolidated statements of income.

Payment Services – Corporate One earns fees from payment services from its members for transaction-based and account maintenance services provided to its members 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 third-party providers). 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, including $2.51 million in third-party costs incurred to provide these services. Payment service fees are withdrawn from the member's deposit account balance.

(Table dollar amounts in thousands)

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 $87,000 in third-party costs incurred to provide these services.

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, payment services fees are presented net of related costs, including $252,000 in third-party costs incurred to provide these services. Payment service fees are withdrawn from the member's deposit account balance.