

# 2018 FINANCIAL REPORT

**CORPORATE ONE FEDERAL CREDIT UNION**

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## A LETTER TO OUR MEMBERS

Dear Members:

2018 was another outstanding year for Corporate One marked by many successful accomplishments, strong financial growth, and exciting transitions. Thanks to your ongoing support, we experienced our third strongest year of financial growth since 1998 with net income of \$13.2 million. We also bid a fond farewell and a very happy retirement to our CEO/president of more than 20 years, Lee Butke, and we transitioned from our board chairman of nine years, Jerry Guy, to our new chairman, R. Lee Powell, Jr. Although our leadership transitioned, our dedicated focus on helping credit unions succeed remained the same.

As your new leaders, we will continue to drive forward the shared values and vision of Corporate One. Our ongoing commitment to practical innovation, robust financial solutions, industry leadership, and excellent member service has never been more evident than during this past year, as the following highlights demonstrate:

- Our retained earnings increased \$10.2 million since December 31, 2017, to \$91.8 million at December 31, 2018. Retained earnings is a component of total regulatory capital and with this growth, our total regulatory capital at December 31, 2018, was \$306.6 million, one of the highest levels in the corporate network. A strong capital level is important since it protects our members' shares and certificates and allows us to provide liquidity to our members when they need it.
- We provided more than \$2.5 billion in funding to member and non-member credit unions and credit union service organizations through loans, public fund deposits, and non-member deposits. Providing access to funds when demand increases is



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



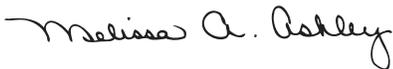
**R. Lee Powell, Jr.**  
Chairman;  
CEO/President  
Desco FCU

the foundation of why corporate credit unions were created, and we know how critical it is to strategically manage our liquidity position on behalf of our members.

- We continued our leadership in faster payments, shaping the future through participation at the highest levels on the U.S. Faster Payments Council and The Clearing House's (TCH) Real-Time Payments (RTP) Advisory Committee.
- We made significant investments to expand our ability to provide our members with critical digital solutions. Our new CUSO, Sherpa Technologies, answers the complex questions digital transformation poses for many of you. Sherpa's experienced team of professionals, all of whom worked at Corporate One for many years, help credit unions develop a digital transformation plan that meets their strategic vision and organizational objectives and master the art of fintech. With the creation of Sherpa, Corporate One moved our portfolio of digital solutions to the new CUSO, which means Sherpa can focus solely on the digital transformation within our industry and ensure credit unions have digital solutions that can integrate seamlessly and efficiently.
- Due to the rapid decline in check volumes in recent years, we determined it was in the best interests of our members to adopt a co-sourced operational service model for our check processing services so that we could continue to offer these critical services cost effectively both now and in the future. To that end, we invested in TranzCapture, a CUSO that offers integrated processing capabilities and state-of-the-art technology solutions. We can now take check processing to the next level and continue to provide extraordinary service to our members.

It is our ongoing vision to use our expertise and leadership to be a world-class, trusted partner and provider of cash management, investment, funding, payment services, and digital solutions, ensuring our members stay competitive in these evolving landscapes. We are thankful for the support of our members this past year, and we are excited about the opportunities ahead to drive even more value to credit unions and your own memberships.

Sincerely,



**Melissa A. Ashley**  
CEO/President



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

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

## **Executive Summary**

2018 closed as Corporate One's third strongest year since 1998, with \$13.2 million in net income. Our balance sheet structure, the rising interest rate environment, deepened member relationships, and a focus on efficiency were all strategically leveraged to build earnings and create a stable corporate credit union. The overall measure of stability for a corporate credit union is total regulatory capital. And, as of December 31, 2018, Corporate One's total regulatory capital exceeded \$306.6 million.

A strong regulatory capital position 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, successfully 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 re-invested our 2018 earnings into strategic initiatives that will enable credit unions to remain relevant and competitive financial partners to their members by more easily delivering delightful digital member experiences and taking advantage of faster payments, instead of making a one-time dividend payout. The creation of a new credit union service organization (CUSO), Sherpa Technologies, is a prime example of the pioneering, digital leadership we hope to provide credit unions more of in today's digital marketplace.

Overall, net interest income in 2018 was \$34.7 million, which is an increase of \$4.1 million from 2017. This increase is the result of our effort to structure our balance sheet to ensure we are prepared for a raising rate environment, which we saw come to fruition as the Federal Open Market Committee (FOMC) raised rates four times during 2018. The increase in our net interest margin is primarily due to the increased spread between the LIBOR index and the Fed funds rates. We hold a substantial pool of securities based on one- and three-month LIBOR rates. Typically, the LIBOR index is anticipatory of changes to the Fed funds rate and 2018's rising rate environment resulted in a historically wide spread between these two indices. Our liabilities are benchmarked to the Fed funds rates and in order to attract and maintain share balances, our deposit products have to be competitively priced. The increase in rates by the FOMC benefitted our members through increased dividends. We paid 75 percent more in dividends to our members than what they earned in 2017.

Throughout 2018, the corporate network continued to experience a decrease in share balances that started in 2017. This decrease in balances held at corporates correlates to an increase in credit unions' loan-to-share ratios, a result of credit unions using their liquidity to fund loans to their members rather than holding cash balances. Corporate One experienced a decline in share balances in 2018 with our average balances decreasing approximately \$175.0 million from 2017.

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.

	2018			2017		
	Average Balance	Interest or Dividends	Average Rate	Average Balance	Interest or Dividends	Average Rate
<b>Interest-Earning Assets:</b>						
Cash and cash equivalents	\$ 905,886	\$ 15,910	1.76%	\$ 1,339,352	\$ 14,617	1.09%
Investment in financial institutions	2,388	27	1.13%	2,104	27	1.28%
Other short-term investments	58,940	1,238	2.10%	1,616	17	1.05%
Loans	93,347	2,354	2.52%	122,821	2,204	1.79%
Asset-backed securities	497,213	12,734	2.56%	742,202	11,440	1.54%
SBA mortgage-backed securities	485,491	11,555	2.38%	424,758	6,759	1.59%
Mortgage-related securities	464,982	15,445	3.32%	625,053	15,594	2.49%
Corporate debt	289,714	8,137	2.81%	5,030	77	1.53%
Government-sponsored enterprise	19,753	526	2.66%	10,000	168	1.68%
Other investments	139,597	4,852	3.48%	269,669	6,190	2.30%
<b>TOTAL INTEREST-EARNING ASSETS</b>	<b>\$ 2,957,311</b>	<b>\$ 72,778</b>	<b>2.46%</b>	<b>\$ 3,542,605</b>	<b>\$ 57,093</b>	<b>1.61%</b>
<b>Interest- and Dividend-Bearing Liabilities and Members' Share Accounts:</b>						
Overnight shares	\$ 2,146,203	\$ 27,660	1.29%	\$ 2,461,608	\$ 17,207	0.70%
Term shares	441,801	8,828	2.00%	300,604	3,544	1.18%
Other borrowings	99,972	1,582	1.58%	527,210	5,747	1.09%
<b>TOTAL INTEREST- AND DIVIDEND-BEARING LIABILITIES AND MEMBERS' SHARE ACCOUNTS</b>	<b>\$ 2,687,976</b>	<b>38,070</b>	<b>1.42%</b>	<b>\$ 3,289,422</b>	<b>26,498</b>	<b>0.81%</b>
<b>NET INTEREST INCOME</b>		<b>\$ 34,708</b>			<b>\$ 30,595</b>	
<b>NET INTEREST MARGIN</b>			<b>1.17%</b>			<b>0.86%</b>

Corporate One also experienced a slight increase in net settlement income in 2018, which reached \$13.4 million. We recognized increases in revenue from our digital solutions, as well as from our wholly owned CUSOs, Lucro Commercial Solutions and Accolade Investment Advisory, both of which saw significant increases in credit unions utilizing their services. Offsetting increases in the revenues of our wholly owned CUSOs were decreases in the commission income we earn on the sales of securities and brokered certificates of deposits to members, a result of the decrease in liquidity in the credit union market. In addition, as the financial markets continue to migrate toward faster payments, we continued to experience declining share draft volumes, resulting in lower revenues related to share draft in-clearing and deposit processing.

Total operating expenses increased over 2017 as we made significant investments in expanding our ability to provide credit unions with digital/faster payment solutions. As mentioned above, it is critical that credit unions are ready to embrace the rapidly changing fintech environment, and we are working diligently to provide them valuable insights and solutions, so they can more readily do so. Not only are we enhancing our digital/faster payment solutions for members through our newly launched, wholly owned CUSO, Sherpa Technologies, LLC, 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. With this strategy top of mind, Corporate One has been closely following the rapid decline in share draft volumes in recent years, and we have determined that it is in the best interests of our members to adopt a co-sourced operational service model for our share draft processing services so that we can continue to offer these critical services cost effectively to our members. As such, we invested in the CUSO TranzCapture, LLC, and incurred certain costs in 2018 related to the transitioning of our in-clearing and deposit processing to this CUSO. Partially offsetting these 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 \$97,000 in 2018 from 2017.

In 2018, as part of our normal course of business, we sold securities, some of which were a part of our legacy private label mortgage-backed security portfolio, and, as a result, we recorded net gains on sales of securities of \$2.1 million. Based on our ability to weather the financial crisis, we were permitted to hold our legacy portfolio, and we actively monitor this portfolio and only sell securities when we believe there is value in doing so. The markets see the value in some of these legacy assets, and we were able sell some of these securities at gains. If any of these securities do not perform up to our expectations, we are required to record other-than-temporary impairment (OTTI) charges. None of our legacy securities deteriorated more than we had previously determined, and, therefore, no OTTI charges were recorded in 2018. In 2017, we recorded \$68,700 in OTTI charges on one security.

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

<b>Table Two: Selected Financial Information (Dollar amounts are in thousands)</b>					
For the year ended December 31,					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Net interest income	\$ 34,708	\$ 30,595	\$ 29,255	\$ 22,912	\$ 23,440
Net service fee income	13,415	13,328	13,868	14,549	14,804
Total operating expenses	37,007	35,066	34,465	32,088	29,670
<b>CORE EARNINGS BEFORE NET GAIN ON INVESTMENTS AND OTHER ITEMS</b>	<b>11,116</b>	<b>8,857</b>	<b>8,658</b>	<b>5,373</b>	<b>8,574</b>
Other-than-temporary impairment losses on securities		(69)	(171)	(829)	(1,011)
Net gain on other investments	2,131	2,261	1,169	4,393	1,680
Other items*		2,072			
<b>NET INCOME</b>	<b>\$ 13,247</b>	<b>\$ 13,121</b>	<b>\$ 9,656</b>	<b>\$ 8,937</b>	<b>\$ 9,243</b>

\*Gain on sale of product line

**Regulatory Capital Position**

On October 20, 2010, the NCUA published the revisions to NCUA Rules and Regulations, Part 704, in the Federal Register. 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. The new capital instruments are Perpetual Contributed Capital (PCC) and Non-perpetual Capital Accounts (NCA). All MCS has been paid back to our members with only a small amount of PIC remaining with a 2031 maturity date. 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 Asset (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 increases our Leverage ratio as of the effective date of the amendment.

Our total regulatory capital increased \$11.8 million since December 31, 2017, to \$306.6 million at December 31, 2018, 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 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 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.

<b>Table Three: Regulatory Capital (Dollar amounts are in thousands)</b>					
At December 31,					
	2018	2017	2016	2015	2014
Retained earnings	\$ 91,809	\$ 81,599	\$ 69,988	\$ 61,103	\$ 52,933
PIC	20	20	20	20	20
MCS				100	101
PCC	221,249	219,442	219,174	219,181	219,208
NCA				82,700	82,700
<b>TOTAL REGULATORY CAPITAL ACCOUNT BALANCES</b>	<b>313,078</b>	<b>301,061</b>	<b>289,182</b>	<b>363,104</b>	<b>354,962</b>
Plus retained earnings of acquired entity*			869	869	869
Less amortized PIC, MCS and NCA				(82,800)	(75,911)
Less CUSO's (equity and cost)	(6,438)	(6,238)	(6,023)	(6,313)	(6,112)
<b>TOTAL REGULATORY CAPITAL</b>	<b>\$ 306,640</b>	<b>\$ 294,823</b>	<b>\$ 284,028</b>	<b>\$ 274,860</b>	<b>\$ 273,808</b>
Unamortized PIC, MCS and NCA	(20)	(20)	(20)	(20)	(6,910)
Excluded PCC**		(43,404)	(73,763)		
<b>TIER 1 CAPITAL</b>	<b>\$ 306,620</b>	<b>\$ 251,399</b>	<b>\$ 210,245</b>	<b>\$ 274,840</b>	<b>\$ 266,898</b>

\*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.

Due to our \$11.8 million increase in our retained earnings in 2018, we exceeded the NCUA retained earnings ratio benchmark of 250 basis points. As a result, all the PCC our members invested with Corporate One is included as Tier 1 capital at December 31, 2018.

Table Four summarizes Corporate One's regulatory capital ratios as of December 31, 2018, and 2017.

<b>Table Four: Capital Ratios (Dollar amounts are in millions)</b>		
December 31,		
	2018	2017
Retained earnings ratio	3.04%	2.27%
Leverage ratio	10.17%	7.10%
Tier 1 risk-based capital ratio	33.66%	27.70%
Total risk-based capital ratio	33.66%	32.48%
MDANA*	\$ 3,020	\$ 3,592
MDANRA**	\$ 911	\$ 908
Adjusted MDANA***	\$ 3,014	\$ 3,542

\*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.

As discussed previously, prior to attaining a 250 basis points retained earnings ratio, the corporate would be required to deduct the amount of PCC from federally-insured credit unions exceeding retained earnings by 200 basis points in calculating their Tier 1 capital. Corporate One exceeded this benchmark in 2018, and, as a result, Tier 1 capital increased significantly over prior year. Our increased retained earnings and the ability to count all PCC are the reasons for the increase in our Tier 1 capital and hence the increase in our Leverage and Tier 1 risk-based capital ratios year over year. Our Total risk-based capital ratio increased from 2017 to 2018 due to our increase in retained earnings. At the end of 2018, all our capital ratios exceed NCUA well-capitalized levels.

Table Five summarizes the NCUA requirements for the various ratios:

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

### **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**

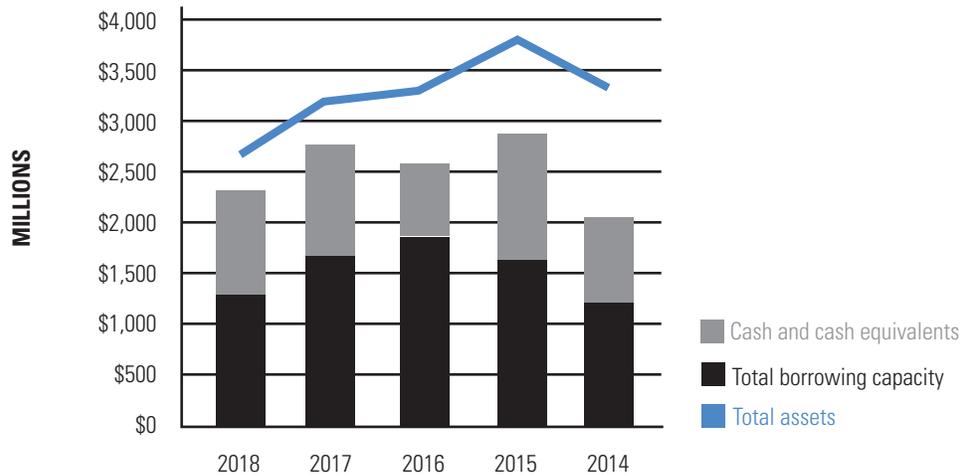
Liquidity risk is one of the most important risks we manage. With every deposit we accept, we understand that we need to appropriately manage our liquidity to ensure our members have access to those funds when needed. Accordingly, we have certain daily liquidity management strategies we employ, as well 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, 2018, we had \$673.6 million in cash and cash equivalents and approximately \$1.6 billion in remaining borrowing capacity (total existing lines less borrowings outstanding). This is significant given our total balance sheet of \$2.7 billion and settlement and regular shares of \$2.0 billion.

As credit unions have been increasing their loan-to-share ratios to their highest levels since 2008, we have naturally seen a decrease in shares year over year. As our members are making more loans to their members, we continue to work to make certain we have ample liquidity to fund their needs. While a portion of our assets are held in cash and cash equivalents, we have consciously worked to more fully invest our assets over the last five years. Our ability to invest in assets other than cash enhances our return on our assets so we can continue to pay our members competitive rates on their deposits. All of our securities are classified as available-for-sale in case we need to sell them to raise liquidity.

Figure One shows our available liquidity as compared to our total assets 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, 2018, our single largest depositor represented only seven 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, 2018, was approximately \$1.6 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately \$810.5 million. 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 \$150.0 million. This agreement is secured using certain of our asset-backed securities as collateral, and we have recently tested this source to ensure that it represents a viable liquidity source. Also, we maintain \$130.0 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 \$555.2 million at December 31, 2018.

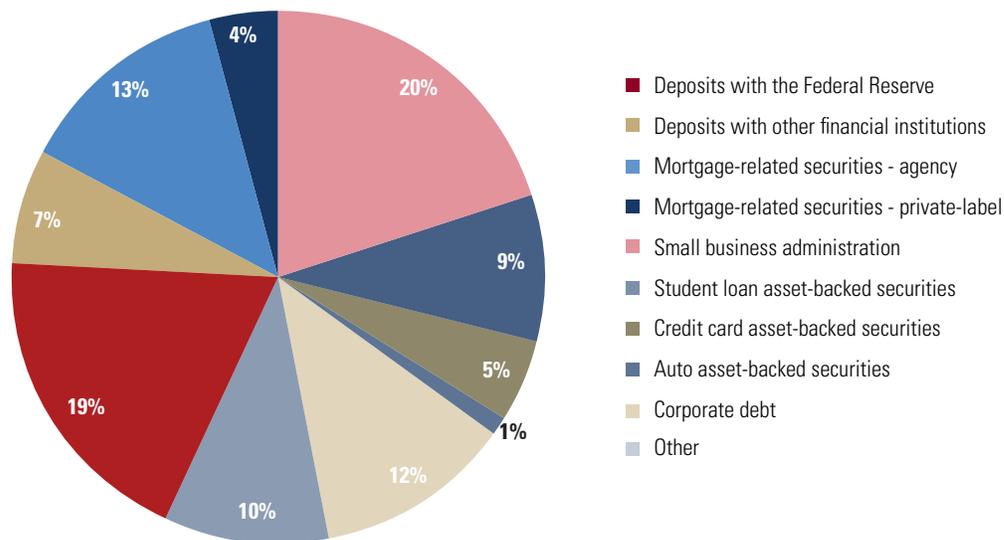
Although Corporate One's on-balance-sheet loan portfolio is small, we have total outstanding advised lines and letter of credit commitments to members of approximately \$3.6 billion at December 31, 2018. All outstanding line-of-credit commitments are collateralized by specific or general pledges of assets 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 are 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, 2018, is shown in Figure Two.

**Figure Two: Diversification of interest-earning assets as of December 31, 2018**



As shown in Figure Two, our portfolio remains well diversified. Nineteen percent of the amortized cost of our interest-earning assets is in cash held at the Federal Reserve Bank. Another 67 percent of our portfolio is cash and investments held at other financial institutions, 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.

For securities where we believe not all principal and interest will be received, we must record OTTI charges. The charges, which represent the estimated credit losses, are determined by calculating the difference between the discounted projected cash flows of the securities and their current amortized cost. In our review of our investment portfolio, the only sector for which we believe we will have credit losses is our private-label, mortgage-related sector.

During the year ended December 31, 2018, we did not record OTTI charges on any security. As of December 31, 2018, we continued to hold 23 mortgage-related securities previously determined to be other-than-temporarily impaired. These securities had a total par value of approximately \$48.2 million at December 31, 2018. For these 23 mortgage-related securities, we have recorded OTTI charges to date of approximately \$27.7 million. However, we have only had total cumulative principal shortfalls of approximately \$9.9 million on 10 of these 23 securities through December 31, 2018.

The difference between the \$27.7 million of cumulative estimated credit losses and the \$9.9 million of actual cumulative principal shortfalls is the amount remaining to absorb future principal shortfalls or if we determine there is a significant improvement in cash flows over our original estimates, the amount will be recognized as earnings. As of December 31, 2018, we hold securities for which we believe there has been a significant improvement in cash flows over the estimates made at the time we recorded OTTI charges. Accounting guidance requires that this improvement be accounted for as an adjustment to the yield on the security and recognized as interest income over the remaining life of the security. Accordingly, we adjusted the yield on these securities and recorded additional interest income of \$487,500 in 2018.

In addition to these securities, as a result of the 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. These 20 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. At acquisition, the total non-accretable discount was \$26.7 million. Since that time, we sold one security in 2015 with a non-accretable discount of \$600,000, and we have had actual principal shortfalls of \$2.8 million. Additionally, current estimates of future cash flows show significant improvement. As a result, we have reclassified \$6.9 million of the non-accretable discount to the accretable discount since acquisition. This will increase the yield on these securities and be recognized as increased interest income over the remaining lives of the securities. As of the end of December 31, 2018, for the 17 remaining securities, there is a balance of \$15.2 million in the non-accretable discount on these securities. This is the amount remaining to absorb future principal shortfalls on these securities or will be recognized as earnings if we determine there is additional improvement in cash flows over our original estimates.

### 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 2018, we sold securities with a current par value of \$322.5 million, realizing a net gain of \$2.1 million. These sales were a result of repositioning certain sectors of our portfolio, as well as generating liquidity, as our members experienced tight liquidity due to unprecedented high loan-to-share ratios. During 2018, net unrealized gain (AOCI) peaked at \$15.8 million in April 2018 with all asset sectors experiencing market improvement; however, we ended the year in a net unrealized loss (AOCL) position of \$3.6 million. Our net unrealized loss at the end of the year was not a result of deteriorating credit fundamentals within any asset class. It was a direct result of the market volatility caused by the government shutdown and China-US trade war talks.

Table Six details our net unrealized (losses) gains by sector at December 31, 2018, and 2017.

**Table Six: Net Unrealized Gains (Losses)**  
(Dollar amounts are in thousands)

Type	December 31,	
	2018	2017
Mortgage-related	\$ 8,842	\$ 10,902
Small business administration	(1,075)	5,745
Credit cards	(700)	937
Corporate debt	(4,771)	1,012
Automobiles	78	320
Student loans	(5,982)	(8,675)
	\$ (3,068)	\$ 10,241

### 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, 2018, and 2017 is shown in Table Seven.

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

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
<b>As of December 31, 2018*</b>				
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%
<b>As of December 31, 2017*</b>				
300 bps rise in rates	\$ 306,474	9.72%	\$ (4,850)	-1.56%
Base scenario	\$ 311,324	9.85%		

\* 300 bps decline did not apply in the interest rate environment present on December 31, 2018, and 300 and 200 bps declines did not apply in the interest rate environment present on December 31, 2017.

The increase in our NEV from December 31, 2017, is primarily due to our 2018 net income. The NEV ratio, which is a function of both the NEV and the size of our balance sheet, is measured using period-end balances. Corporate One maintains an NEV ratio well above the minimum two percent NEV ratio required by the NCUA.

To mitigate interest rate risk, when members deposit funds with us, we can invest those funds in a variety of financial instruments that closely match the repricing characteristics of the underlying deposit, resulting in minimal mismatch. As of December 31, 2018, 86 percent of our liabilities are overnight shares that reprice daily while only 14 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, 2018, 26 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, 97 percent of the par value amount of our securities were variable-rate securities and reset either monthly or quarterly, predominantly based upon LIBOR. Of these variable-rate securities, 20 percent had interest rate caps that were fixed at the time of issuance, and the caps range from five percent to 18 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 occurs 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.

**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 2018 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.



**William P. Allender,**  
Board Liaison, BMI FCU



**Sonja Delaney,**  
Midwest Community FCU  
*Resigned December 2018*



**Hilary Eisbrenner,**  
Space Coast CU  
*Appointed February 2019*



**Donna Johnson,**  
Coastline FCU



**Kathy R. Martin,**  
Directions CU



**Mark A. Overfield,**  
Chairman, Firelands 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, 2018. 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, 2018.

### **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.

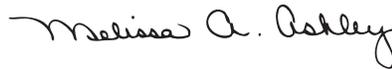
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or 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, 2018, 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, 2018, 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, 2018, has been audited by Crowe LLP, an independent public accounting firm, as stated in their report dated March 25, 2019.



Melissa A. Ashley  
President, Chief Executive Officer



Denise Brown  
Executive Vice President, Chief Financial Officer

Columbus, Ohio  
March 25, 2019

# 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, 2018, 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, 2018, 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 2018 consolidated financial statements of Corporate One Federal Credit Union, and our report dated March 25, 2019, expressed an unmodified opinion on those consolidated financial statements.

*Crowe LLP*

Crowe LLP  
Columbus, Ohio  
March 25, 2019

# 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, 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 25, 2019 expressed an unmodified opinion.



Crowe LLP  
Columbus, Ohio  
March 25, 2019

## CONSOLIDATED BALANCE SHEETS

December 31,		
	2018	2017
<b>ASSETS</b>		
Cash and cash equivalents	\$ 673,614,806	\$ 1,074,272,832
Other short-term investments	29,763,792	
Investments in financial institutions	50,367,600	43,134,000
Available-for-sale securities, at fair value	1,731,655,383	1,844,746,789
Loans	98,826,118	117,562,556
Accrued interest receivable	7,070,231	5,072,068
Goodwill	3,401,412	3,401,412
Intangible assets	6,883,247	9,241,302
Other assets	62,749,662	62,179,598
<b>TOTAL ASSETS</b>	<b>\$ 2,664,332,251</b>	<b>\$ 3,159,610,557</b>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>Liabilities:</b>		
Settlement and regular shares	\$ 2,034,107,863	\$ 2,534,923,916
Share certificates	313,459,004	257,573,868
Borrowed funds		50,000,000
Dividends and interest payable	352,914	201,347
Accounts payable and other liabilities	6,962,417	5,630,024
<b>TOTAL LIABILITIES</b>	<b>2,354,882,198</b>	<b>2,848,329,155</b>
<b>Members' equity:</b>		
Perpetual contributed capital	221,249,122	219,441,538
Retained earnings	91,809,283	81,598,817
Accumulated other comprehensive (loss) income	(3,608,352)	10,241,047
<b>TOTAL MEMBERS' EQUITY</b>	<b>309,450,053</b>	<b>311,281,402</b>
<b>TOTAL LIABILITIES AND MEMBERS' EQUITY</b>	<b>\$ 2,664,332,251</b>	<b>\$ 3,159,610,557</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,	
	2018	2017
<b>Interest income:</b>		
Investments and securities	\$ 70,423,871	\$ 54,889,219
Loans	2,353,879	2,204,184
TOTAL INTEREST INCOME	72,777,750	57,093,403
<b>Dividend and interest expense:</b>		
Share accounts	36,487,587	20,751,239
Other borrowings	1,582,276	5,747,270
TOTAL DIVIDEND AND INTEREST EXPENSE	38,069,863	26,498,509
NET INTEREST INCOME	34,707,887	30,594,894
SERVICE FEE INCOME, NET	13,415,607	13,327,455
<b>Net gain on investments:</b>		
Total other-than-temporary impairment losses		(76,565)
Portion of loss recognized in other comprehensive income		7,895
Net impairment losses recognized in earnings		(68,670)
Net gain on sales of securities	2,131,138	2,261,144
TOTAL NET GAIN ON INVESTMENTS	2,131,138	2,192,474
GAIN ON SALE OF PRODUCT LINE		2,072,329
<b>Operating expenses:</b>		
Salaries and employee benefits	22,467,057	21,312,872
Office operations and occupancy expense	7,813,913	7,603,766
Amortization of intangibles expense	2,358,055	2,454,500
Other operating expenses	4,368,133	3,695,168
TOTAL OPERATING EXPENSES	37,007,158	35,066,306
<b>NET INCOME</b>	<b>\$ 13,247,474</b>	<b>\$ 13,120,846</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2018	2017
<b>Net Income</b>	<b>\$ 13,247,474</b>	<b>\$ 13,120,846</b>
Other comprehensive (loss) income:		
Change in net unrealized gain on available-for-sale securities	(11,718,261)	30,971,090
Reclassification adjustment recognized in earnings for other-than-temporary declines in values of securities		68,670
Reclassification adjustment recognized in earnings for net gain from sales of securities	(2,131,138)	(2,261,144)
<b>Total other comprehensive (loss) income</b>	<b>(13,849,399)</b>	<b>28,778,616</b>
<b>COMPREHENSIVE (LOSS) INCOME</b>	<b>\$ (601,925)</b>	<b>\$ 41,899,462</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
<b>BALANCE AT JANUARY 1, 2017</b>	<b>\$ 219,173,905</b>	<b>\$ 69,988,474</b>	<b>\$ (18,537,569)</b>	<b>\$ 270,624,810</b>
Net Income		13,120,846		13,120,846
Other comprehensive income			28,778,616	28,778,616
Issuance of PCC	267,633			267,633
Dividends on perpetual contributed capital		(1,510,503)		(1,510,503)
<b>BALANCE AT DECEMBER 31, 2017</b>	<b>219,441,538</b>	<b>81,598,817</b>	<b>10,241,047</b>	<b>311,281,402</b>
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)
<b>BALANCE AT DECEMBER 31, 2018</b>	<b>\$ 221,249,122</b>	<b>\$ 91,809,283</b>	<b>\$ (3,608,352)</b>	<b>\$ 309,450,053</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,	
	2018	2017
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,247,474	\$ 13,120,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,548,014	1,807,426
Amortization of intangibles	2,358,055	2,454,500
Net accretion	(2,418,343)	(3,545,333)
Net impairment losses on investments		68,670
Net gain on sales of securities	(2,131,138)	(2,261,144)
Net loss on disposals of assets		8,167
Gain on sale of product line		(2,072,329)
Net change in accrued interest receivable	(1,998,163)	(2,107,946)
Net change in dividends and interest payable	151,567	138,288
Other, net	2,267,273	(215,735)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13,024,739</b>	<b>7,395,410</b>
<b>Cash flows from investing activities:</b>		
Net change in investments in financial institutions	(7,233,600)	(10,892,300)
Available-for-sale securities:		
Sales	316,687,503	484,680,440
Maturities and principal pay downs	280,959,352	565,013,073
Purchases	(495,276,642)	(572,722,116)
Change in other short-term investments	(29,763,792)	
Investment in CUSOs	(500,000)	
Dividends received from investments in CUSOs	240,000	
Net change in loans	18,736,438	1,881,723
Proceeds from sale of product line		1,800,000
Net change in NCUSIF share insurance deposit	(17,048)	(30,314)
Net purchase of property and equipment	(1,354,635)	(760,740)
Advances on split-dollar life insurance agreements		(429,655)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>82,477,576</b>	<b>468,540,111</b>
<b>Cash flows from financing activities:</b>		
Net change in borrowed funds	(50,000,000)	28,000,000
Change in shares and deposits	(444,930,917)	(146,569,504)
Issuance of perpetual contributed capital	1,807,584	267,633
Dividends on perpetual contributed capital	(3,037,008)	(1,510,503)
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(496,160,341)</b>	<b>(119,812,374)</b>
Net (decrease) increase in cash and cash equivalents	(400,658,026)	356,123,147
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>1,074,272,832</b>	<b>718,149,685</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 673,614,806</b>	<b>\$ 1,074,272,832</b>
Supplemental disclosure:		
Dividends and interest paid	\$ 40,955,304	\$ 27,870,724

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), formerly known as Corporate Synergies, LLC, which are described below. The consolidated financial statements include the accounts of Corporate One and the three CUSOs. All significant intercompany accounts and transactions have been eliminated.

Lucro Commercial Solutions, LLC (Lucro) – 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. For the years ended December 31, 2018 and 2017, Lucro contributed approximately \$492,000 and \$356,000, respectively to net income for Corporate One. 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 \$283.9 million and \$262.3 million at December 31, 2018 and 2017, respectively.

Accolade Investment Advisory, LLC (Accolade) – Accolade provides asset/liability management tools and investment advisory services to credit unions. For the years ended December 31, 2018 and 2017, Accolade's results of operations of approximately \$(342,000) and \$132,000, respectively are included in the net income for Corporate One.

Sherpa Technologies, LLC, (Sherpa) – formerly known as Corporate Synergies, LLC (CorpSyn). Corpsyn previously was an inactive CUSO but was re-branded into Sherpa during 2018. Sherpa's purpose is to provide enhanced member experiences through digital technologies. For the year ended December 31, 2018, Sherpa's results of operations of approximately \$(1,250,000) is included in the net income for Corporate One.

(Table dollar amounts in thousands)

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### (a) Use of Estimates

The accounting and reporting policies of Corporate One conform with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and 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 (OTTI) 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, 2018 and 2017, 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, 2018, all commercial paper held matures June 30, 2019.

### (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.

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 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

(Table dollar amounts in thousands)

it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the statement of income and 2) OTTI related to other factors, which is recognized in other comprehensive income (loss). The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

**(f) Purchased Credit-Impaired Securities**

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

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

**(g) 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) 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.

**(j) 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

(Table dollar amounts in thousands)

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.

**(k) 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.

**(l) 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 6. 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.

**(m) 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, 2018 and 2017, there were \$20,000 of shares on notice and are included in liabilities under share certificates in the financial statements.

**(n) Retained Earnings**

Retained earnings represent earnings not distributed as dividends to members.

**(o) 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.

(Table dollar amounts in thousands)

**(p) Service Fees**

Service fees are earned on various services provided to credit unions and their affiliates. These services include ACH program, depository services, share draft processing, 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 and investment advisory services, and member experiences through technologies. Revenue is recognized in the period in which services are rendered. Gross service fee income for the years ending December 31, 2018 and 2017, was \$16.5 million and \$17.3 million, respectively. Revenues on the accompanying consolidated statements of income are reduced by third-party costs incurred to provide these services. These third-party costs were \$3.1 million and \$4.0 million for the years ended December 31, 2018 and 2017, respectively.

**(q) 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.

**(r) Reclassifications**

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the year ended December 31, 2018. These reclassifications had no impact on total assets, total liabilities and members' equity, or net income.

**(s) Subsequent Events**

Management has performed an analysis of activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments to and/or disclosures within the financial statements for the year ended December 31, 2018. Management has performed such analysis through March 25, 2019, the date the financial statements are available to be issued.

**(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 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.

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. Corporate One holds securities that do not meet certain requirements of the new regulation. At December 31, 2018, the amortized cost and fair value of such securities is \$36.5 million and \$33.9 million, respectively. At December 31, 2017, the amortized cost and fair value of such securities was \$66.2 million and \$64.1 million, respectively. During this time of transition to the new investment prohibitions, Corporate One is adhering to Part 704.10 and has filed the required Investment Action Plans (IAP) with the NCUA. In a letter dated February 28, 2019 NCUA confirmed that they have permitted Corporate One to hold non-compliant securities under a number of IAP and do not intend to require Corporate One to sell any securities. The IAP approval time period is not to exceed March 31, 2020, at which time new IAP are required to be submitted to NCUA.

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 15.

(Table dollar amounts in thousands)

### (3) SALE OF CREDIT/DEBIT CARD SERVICING

In April 2017, we entered into an asset purchase agreement to transition our servicing responsibility and ownership of certain debit and credit card contracts to PSCU Incorporated (PSCU). The asset purchase agreement resulted in a gain of approximately \$2.1 million recognized in the accompanying consolidated statements of income. Corporate One received \$1.8 million in cash, with the potential for additional payments over the next five years of approximately \$60,000 a year. The actual annual payments will be based on the retention of the current level of cardholders. The contingent payments have been recorded as a receivable in other assets on the consolidated balance sheets. As of December 31, 2018 and 2017, the contingent payments receivable totaled \$175,000 and \$272,000, respectively. During 2018, we received a payment of \$48,000 and reduced the remaining receivable by \$49,000 due to lower retention levels on cardholders than originally anticipated.

### (4) LOANS

Loans to members at December 31 are summarized at right.

An allowance for loan losses (ALL) was not considered necessary at December 31, 2018 or 2017, for member loans based on management's continuing review and evaluation of the loan portfolio. Corporate One incurred no loan losses in either 2018 or 2017 on member loans, and considers no member loans impaired as of, or during the years ended December 31, 2018 and 2017.

	2018	2017
Member loans:		
Term	\$ 72,900	\$ 88,108
Warehouse	12,800	21,540
Demand	10,102	7,809
Settlement	3,024	106
<b>TOTAL LOANS</b>	<b>\$ 98,826</b>	<b>\$ 117,563</b>

### (5) INVESTMENTS IN FINANCIAL INSTITUTIONS

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

	2018	2017
Federal Home Loan Bank stock	\$ 36,992	\$ 39,710
Certificates of deposit	13,376	3,424
<b>TOTAL INVESTMENTS IN FINANCIAL INSTITUTIONS</b>	<b>\$ 50,368</b>	<b>\$ 43,134</b>

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, 2018 and 2017.

As of December 31, 2018 and 2017, 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).

(Table dollar amounts in thousands)

Certificates of deposit by maturity at December 31, 2018, are summarized as follows:

Year of Maturity	Balance
2019	\$ 1,488
2020	10,400
2021	496
2023	992
<b>TOTAL CERTIFICATES OF DEPOSIT</b>	<b>\$ 13,376</b>

## (6) SECURITIES

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

2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
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
<b>TOTAL AVAILABLE-FOR-SALE SECURITIES</b>	<b>\$ 1,735,264</b>	<b>\$ 14,633</b>	<b>\$ (18,242)</b>	<b>\$ 1,731,655</b>
2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-sale securities:</b>				
Corporate debt securities	\$ 302,243	\$ 1,198	\$ (186)	\$ 303,255
Small business administration (SBA) securities	449,790	5,745		455,535
Mortgage-related securities	541,103	15,317	(4,416)	552,004
Asset-backed securities	541,370	2,960	(10,377)	533,953
<b>TOTAL AVAILABLE-FOR-SALE SECURITIES</b>	<b>\$ 1,834,506</b>	<b>\$ 25,220</b>	<b>\$ (14,979)</b>	<b>\$ 1,844,747</b>

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. Proceeds from the sale of available-for-sale securities were \$484.7 million in 2017. Gross gains of \$2.3 million and gross losses of \$17,000 were recorded on securities during 2017.

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.

(Table dollar amounts in thousands)

The expected distributions of securities at December 31, 2018, are reflected in the following table. Because the actual lives of 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)
<b>Securities with contractual maturities:</b>			
Due in one year or less	\$ 26,936	\$ 26,972	
Due after one year through five years	520,497	515,853	
Due after five years through ten years	36,935	36,380	
<b>Securities with prepayment features:</b>			
Residential mortgage-backed securities:			
Agency	320,042	320,351	1.83
Non-agency	87,697	95,999	6.00
Asset-backed securities	238,272	232,291	7.35
SBA securities	504,885	503,809	4.86
<b>TOTAL</b>	<b>\$ 1,735,264</b>	<b>\$ 1,731,655</b>	

Certain securities are pledged as collateral to secure certain lines of credit with financial institutions. See Note 10 for further details.

At December 31, 2018, approximately 97 percent of the par value amount, or \$1.73 billion, of Corporate One's securities, with a fair market value of \$1.69 billion, were variable-rate securities, the majority of which had interest rates that reset monthly or quarterly, predominantly based upon LIBOR. Of these \$1.73 billion of variable-rate securities, 20 percent of the par value amount, or \$353.0 million of such securities, with a fair market value of \$346.0 million, had interest rate caps that were fixed at the time of issuance and the caps range from 5 percent to 18 percent.

(Table dollar amounts in thousands)

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

2018						
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale:</b>						
Corporate debt securities	\$ 369,454	\$ (4,899)			\$ 369,454	\$ (4,899)
Small business administration	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)
<b>TOTAL TEMPORARILY IMPAIRED SECURITIES</b>	<b>\$ 902,190</b>	<b>\$ (7,752)</b>	<b>\$ 228,855</b>	<b>\$ (10,490)</b>	<b>\$ 1,131,045</b>	<b>\$ (18,242)</b>
2017						
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Available-for-sale:</b>						
Corporate debt securities	\$ 51,444	\$ (186)			\$ 51,444	\$ (186)
Mortgage-related securities	75,535	(107)	\$ 97,173	\$ (4,309)	172,708	(4,416)
Asset-backed securities	19,594	(6)	217,647	(10,371)	237,241	(10,377)
<b>TOTAL TEMPORARILY IMPAIRED SECURITIES</b>	<b>\$ 146,573</b>	<b>\$ (299)</b>	<b>\$ 314,820</b>	<b>\$ (14,680)</b>	<b>\$ 461,393</b>	<b>\$ (14,979)</b>

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 and small business administration securities were 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 2018. As of December 31, 2017, we recorded an OTTI charge on one mortgage-related security. The estimated credit loss on this one security of \$68,700 was recorded in the accompanying consolidated statements of income.

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 follow the investment action plan provisions of NCUA Rules and Regulations Part 704.10. Corporate One holds securities that do not meet certain requirements of this regulation. At December 31, 2018, the amortized cost and fair value of such securities is \$36.5 million and \$33.9 million, respectively. At December 31, 2017, the amortized cost and fair value of such securities is \$66.2 million and \$64.1 million, respectively. Corporate One is adhering to Part 704.10 and has filed the required IAP with the NCUA. In a letter dated February 28, 2019, NCUA confirmed that they have permitted Corporate One to hold non-compliant securities under a number of IAP and do not intend to require Corporate One to sell any securities. The IAP approval time period is not to exceed March 31, 2020, at which time new IAP are required to be submitted to NCUA.

(Table dollar amounts in thousands)

Gross unrealized losses on corporate debt securities represent 26.9 percent of our gross unrealized losses at December 31, 2018. Of the 19 corporate debt securities we own that were in an unrealized loss position, 15 of those securities are dual rated A or better. The remaining are dual rated BBB or better.

Gross unrealized losses on small business administration securities represent 10.6 percent of our gross unrealized losses at December 31, 2018. All of these securities are issued by federal agencies and backed by the full faith and credit of the US government.

Gross unrealized losses on asset-backed securities represent 42.8 percent of our gross unrealized losses at December 31, 2018. The amortized costs, fair values, credit grades and WAL of asset-backed securities at December 31, 2018, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade	WAL
Student loans:							
FFELP*	\$ 235,632	\$ 229,690	\$ 1,110	\$ (7,052)	AAA	B	7.40
Private	2,640	2,601		(39)	AAA	A	2.09
Credit cards	138,888	138,187	16	(717)	AAA	AAA	3.90
Automobiles	35,536	35,614	78		AAA	AAA	.91
<b>ASSET-BACKED SECURITIES</b>	<b>\$ 412,696</b>	<b>\$ 406,092</b>	<b>\$ 1,204</b>	<b>\$ (7,808)</b>			

\*Federal Family Education Loan Program

Of the 38 asset-backed securities we own that were in an unrealized loss position and are not mortgage related, 21 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 19.7 percent of the gross unrealized losses on available-for-sale securities at December 31, 2018, 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, 2018, are summarized as follows:

	Amortized Cost	Fair Value	Gross Unrealized Gain	Gross Unrealized Loss	Highest Credit Grade	Lowest Credit Grade
Government agency insured	\$ 340,042	\$ 340,582	\$ 659	\$ (119)		
Private:						
Prime collateral	1,138	1,154	16		BB	B
Near-prime collateral*	31,888	35,637	4,860	(1,111)	AAA	D
Sub-prime collateral**	45,314	49,777	6,440	(1,977)	AAA	D
Insured	9,357	9,431	466	(392)	AAA	CC
<b>MORTGAGE-RELATED SECURITIES</b>	<b>\$ 427,739</b>	<b>\$ 436,581</b>	<b>\$ 12,441</b>	<b>\$ (3,599)</b>		

\*Based on the definition used on offering circulars

\*\* Based on 660 or lower FICO score

(Table dollar amounts in thousands)

At December 31, 2018, of the 49 mortgage-related available-for-sale securities we own that were in an unrealized loss position, four were rated D by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Three of these D rated securities were determined to be other-than-temporarily impaired in previous years. The remaining D rated security is a private-label mortgage that has not experienced any actual losses and as of December 31, 2018, has a remaining par of approximately \$100,000. The remaining are dual rated C 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, 2018, we owned 23 mortgage-related securities that were previously determined to be other-than-temporarily impaired. No additional OTTI charges were recorded on these securities during 2018. These securities had a total par value of approximately \$48.2 million at December 31, 2018.

As of December 31, 2017, we owned 34 mortgage-related securities that were considered other-than-temporarily impaired. These securities had a total par value of approximately \$81.8 million at December 31, 2017. During the year ended December 31, 2017, we recorded an OTTI charge on one mortgage-related security. The estimated credit loss on this one security of \$68,700, recognized in the accompanying consolidated statements of income, is a calculation of the difference between the discounted cash flow of the security and its current amortized cost. Total other-than-temporary impairment recognized in accumulated other comprehensive income related to this one security was approximately \$8,000 for the year ended December 31, 2017.

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, 2018 and 2017.

	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2018	Accumulated Other Comprehensive Income (Loss) as of December 31, 2018	Net Impairment Losses Recognized in Earnings for the Year Ended December 31, 2017	Accumulated Other Comprehensive Income (Loss) as of December 31, 2017
<b>Available-for-sale securities:</b>				
Corporate debt securities		\$ (4,771)		\$ 929
Mortgage-related securities - other-than-temporarily impaired		5,016	\$ 69	(1,689)
Mortgage-related securities		3,826		12,590
Asset-backed securities		(6,604)		(7,334)
SBA securities		(1,075)		5,745
<b>TOTAL AVAILABLE-FOR-SALE SECURITIES</b>		<b>\$ (3,608)</b>	<b>\$ 69</b>	<b>\$ 10,241</b>

(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, 2018 and 2017.

Cumulative Credit Losses on Debt Securities		
	2018	2017
Cumulative credit losses on debt securities previously recognized in earnings at January 1,	\$ (54,604)	\$ (55,838)
Additional credit losses recognized in earnings on debt securities previously determined to be other-than-temporarily impaired		(69)
Reduction due to sales of securities	786	532
Reduction due to increases in expected cash flows	410	771
<b>CUMULATIVE CREDIT LOSSES ON DEBT SECURITIES PREVIOUSLY RECOGNIZED IN EARNINGS AT DECEMBER 31,</b>	<b>\$ (53,408)</b>	<b>\$ (54,604)</b>

#### Principal Losses and Recoveries

Through December 31, 2017, we had total cumulative principal shortfalls of approximately \$34.9 million on 43 securities. In 2018, we had an additional \$1.0 million in principal shortfalls, resulting in total cumulative principal shortfalls of \$35.9 million on 43 securities through December 31, 2018. 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 \$419,000 and \$425,000 during 2018 and 2017, respectively, are recorded as a component of net interest income in the accompanying consolidated statements of income.

#### 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 three securities due to sales and maturities. Based on our review during 2018, there was a significant increase in cash flows expected to be collected on these securities. As such, we recalculated the amount of accretable yield for these securities using the updated cash flows and a reclassification from nonaccretable to accretable discount was made during 2018, with the amount of periodic accretion adjusted over the remaining lives of the securities.

(Table dollar amounts in thousands)

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, 2018 and 2017, respectively, is as follows:

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
<b>Balance at December 31,</b>	<b>\$ 20,159</b>	<b>\$ 44,111</b>	<b>\$ 15,242</b>	<b>\$ 8,710</b>	<b>\$ 28,728</b>
2017					
	Amortized Cost	Par Value	Nonaccretable Discount	Accretable Discount	Fair Value
At January 1,	\$ 33,758	\$ 62,995	\$ 18,361	\$ 10,876	\$ 40,599
Accretion	3,090			(3,090)	
Paydowns	(11,297)	(11,297)			(11,297)
Principal shortfalls		(203)	(203)		
Change due to improved projected cash flows			(1,708)	1,708	
Net change in fair value					5,914
<b>Balance at December 31,</b>	<b>\$ 25,551</b>	<b>\$ 51,495</b>	<b>\$ 16,450</b>	<b>\$ 9,494</b>	<b>\$ 35,216</b>

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.

(Table dollar amounts in thousands)

**(7) 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:

	2018	2017
Primary Financial Company LLC	\$ 4,256	\$ 4,349
eDoc Innovations, Inc.	1,932	1,889
TranzCapture LLC	250	
CULedger, LLC	250	
<b>TOTAL NON-MARKETABLE EQUITY INVESTMENTS</b>	<b>\$ 6,688</b>	<b>\$ 6,238</b>

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 \$146,000 and \$231,000 in 2018 and 2017, respectively. Corporate One is also a co-broker of Primary Financial and, as such, earns a spread on certificates placed. Corporate One recognized income of \$1.30 million in 2018 and \$1.30 million in 2017 on the certificates placed. In December 2017, Primary Financial declared a dividend of \$15,000 per share. The dividend was paid in the first quarter of 2018 resulting in a total dividend of \$240,000 to Corporate One.

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 income of \$43,650 in 2018 and loss of \$(16,100) in 2017.

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

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

(Table dollar amounts in thousands)

## (8) 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, 2018, Corporate One performed a qualitative assessment to determine if it was more likely than not that goodwill is impaired, meaning the carrying amount of goodwill exceeds its implied fair value. Based on our review of as of December 31, 2018, 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:

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

	2017	
	Gross Carrying Amount	Accumulated Amortization
Core deposit intangibles	\$ 24,962	\$ 17,993
Member relationship intangibles	4,200	1,928
<b>TOTAL INTANGIBLE ASSETS</b>	<b>\$ 29,162</b>	<b>\$ 19,921</b>

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

Year	Annual amortization expense
2019	\$ 2,167
2020	1,885
2021	1,496
2022	814
2023	350

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, 2018, we do not believe that the intangible assets are impaired.

(Table dollar amounts in thousands)

## (9) 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. Non-marketable equity investments are also included in other assets and are discussed in Note 7. Also included in other assets are split dollar loans related to a Supplemental Executive Retirement Plan (SERP), which are discussed in Note 13.

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

	2018	2017
Buildings and improvements	\$ 9,890	\$ 9,837
Equipment	11,137	11,757
	21,027	21,594
Less: Accumulated depreciation	11,711	11,247
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 9,316</b>	<b>\$ 10,347</b>

## (10) 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, 2018 and 2017, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately \$835.9 million and \$858.8 million, respectively, which provided a borrowing capacity of approximately \$810.5 million and \$798.3 million, respectively. At December 31, 2018, there were no borrowings outstanding. At December 31, 2017, borrowings of \$50.0 million were outstanding at an interest rate of 1.42 percent. These borrowings matured in January 2018.

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, 2018 and 2017, Corporate One had securities held in safekeeping at the Federal Reserve Bank with fair values of approximately \$588.5 million and \$571.1 million, respectively, which provided a borrowing capacity of approximately \$555.2 million and \$519.0 million, respectively. At December 31, 2018 and 2017, there were no amounts outstanding on the line of credit with the Federal Reserve Bank.

Corporate One also maintains reverse repurchase agreements with certain parties allowing for additional liquidity of approximately \$150 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, 2018 or 2017. Average borrowings under reverse repurchase agreements were approximately \$207,000 during 2018 and \$267,000 during 2017. There was no amount outstanding at any month-end during 2018 or 2017.

We also maintain \$130.0 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, 2018 or 2017.

(Table dollar amounts in thousands)

**(11) SHARE ACCOUNTS AND MEMBER CAPITAL ACCOUNTS**

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

	2018		2017	
	Balance	Rate	Balance	Rate
Settlement and regular shares	\$ 2,034,108	1.74%	\$ 2,534,924	1.01%
Share certificates	313,459	2.35%	257,574	1.51%
<b>TOTAL SHARE ACCOUNTS</b>	<b>\$ 2,347,567</b>		<b>\$ 2,792,498</b>	
PCC	\$ 221,249	1.75%	\$ 219,442	0.80%
<b>TOTAL MEMBER CAPITAL ACCOUNTS</b>	<b>\$ 221,249</b>		<b>\$ 219,442</b>	

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, 2018 and 2017, insured member accounts totaled \$148.9 million and \$156.5 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, 2018 are summarized as follows:

Year of Maturity	Balance
2019	\$ 283,411
2020	24,569
2021	5,459
2031	20
<b>TOTAL SHARE CERTIFICATES</b>	<b>\$ 313,459</b>

Share certificates that meet or exceed the NCUSIF insurance limit of \$250,000 at December 31, 2018 and 2017 were \$289.4 million and \$238.8 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.

**(12) COMMITMENTS AND CONTINGENCIES**

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

These financial instruments include committed and advised lines of credit. The contractual amounts of these instruments represent the extent of Corporate One's exposure to credit loss. Corporate One uses the same credit policies in making these commitments and obligations as it does for on-balance-sheet instruments. In extending commitments, Corporate One evaluates each member's creditworthiness on a case-by-case basis. All outstanding commitments are subject to collateral agreements and have termination clauses. At December 31, 2018 and 2017, these financial instruments included outstanding advised lines of credit of approximately \$3.6 billion and \$3.5 billion, respectively. There were no outstanding committed lines of credit at December 31, 2018 or 2017.

(Table dollar amounts in thousands)

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

### (13) RETIREMENT PLAN

Corporate One sponsors a defined-contribution plan (Plan) established under Section 401(k) of the Internal Revenue Code which covers substantially all employees. The Plan allows employees to contribute up to the Internal Revenue Service maximum allowable percentage of their compensation. Employees also have the option to contribute a portion of their compensation on a pre- or post-tax basis. Corporate One matches 150 percent of the first three percent employee contribution and 75 percent on the next two. In addition, Corporate One may elect to make discretionary contributions to the Plan. This election requires approval by the Board of Directors. There was no additional discretionary contributions for 2018 or 2017. Retirement expense was approximately \$906,000 in 2018 and \$860,000 in 2017.

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, 2018 and 2017 was \$566,000 and \$541,000, respectively. Total split dollar loans outstanding at December 31, 2018 and 2017 were \$26.5 million and \$25.9 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 is being recognized over the service period with \$414,000 and \$188,000 recognized in 2018 and 2017, respectively, which is included in salaries and employee benefits in the accompanying Consolidated Statements of Income.

### (14) FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy exists in this guidance, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

The guidance requires that the highest level of valuation available be used. This standard describes inactive markets as characterized by few transactions for the asset, prices that are not current, prices that vary substantially, or some combination thereof, and while an entity should not assume a market is inactive; it should also not assume the prices available are from active markets. The determination of market participation requires a significant amount of judgment by management.

(Table dollar amounts in thousands)

The fair value of available-for-sale securities other than 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, 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)
<b>Available-for-sale securities:</b>				
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	
<b>TOTAL AVAILABLE-FOR-SALE SECURITIES</b>	<b>\$ 1,731,655</b>	<b>\$ 316,546</b>	<b>\$ 1,343,170</b>	<b>\$ 71,939</b>

(Table dollar amounts in thousands)

Assets measured at fair value on a recurring basis are summarized below as of December 31, 2017:

	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)
<b>Available-for-sale securities:</b>				
Corporate debt securities	\$ 303,255	\$ 233,172	\$ 70,083	
Mortgage-related securities - agency	413,494	10,057	403,437	
Mortgage-related securities - private	138,510		15,990	\$ 122,520
SBA securities	455,535		455,535	
Asset-backed securities:				
Student loans - FFELP	279,374		279,374	
Student loans - private	32,634		32,059	575
Credit cards	165,762		165,762	
Automobiles	56,183		56,183	
<b>TOTAL AVAILABLE-FOR-SALE SECURITIES</b>	<b>\$ 1,844,747</b>	<b>\$ 243,229</b>	<b>\$ 1,478,423</b>	<b>\$ 123,095</b>

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, 2018 and 2017.

	Total Fair Value of Available-for-Sale Securities Priced Using Significant Unobservable Inputs (Level 3)	
	2018	2017
Beginning balance January 1,	\$ 123,095	\$ 150,147
Changes in fair values of Level 3 securities due to change in price:		
Mortgage-related securities - private	(272)	10,687
Student loans - private		2
Increases (decreases) due to net losses on investments:		
Total other-than-temporary impairment losses - private mortgage		(77)
Portion of loss recognized in other comprehensive income-private mortgage		8
Decreases due to net gain on sales of securities:		
Net gain on sales of securities	(780)	(531)
Decreases due to sales, maturities and paydowns:		
Mortgage-related securities - private	(35,689)	(36,934)
Student loans - private		(207)
Net transfers out of Level 3:		
Mortgage-related securities - private	(13,840)	
Student loans - private	(575)	
<b>ENDING BALANCE DECEMBER 31,</b>	<b>\$ 71,939</b>	<b>\$ 123,095</b>

(Table dollar amounts in thousands)

We classify the fair value of those securities where there is a lack of observable market data as Level 3. 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 as of December 31, 2018. There were no transfers during 2017.

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2018 and 2017:

2018					
	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Mortgage-related securities - private	\$ 71,939	Discounted cash flow	Constant prepayment rate	(0-100)	12.17
			Probability of default	(0 - 63)	3.53
			Loss severity	(0-90)	29.33
<b>TOTAL LEVEL 3 SECURITIES</b>	<b>\$ 71,939</b>				
2017					
	Fair Value	Valuation Technique	Unobservable Inputs	Range	Weighted Average
Mortgage-related securities - private	\$ 122,520	Discounted cash flow	Constant prepayment rate	(0-100)	10.39
			Probability of default	(0 - 67)	3.11
			Loss severity	(0-96)	20.52
Student loans - private	575	Discounted cash flow	Constant prepayment rate		8.62
			Probability of default		1.56
			Loss severity		68.49
<b>TOTAL LEVEL 3 SECURITIES</b>	<b>\$ 123,095</b>				

The level 3 securities consist of 55 private label mortgage-related securities. 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.

(Table dollar amounts in thousands)

**(15) 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 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.

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 Rules and Regulations §704.2 allows for the deductions used in Tier 1 capital to also be deducted from MDANA for use in the Leverage ratio calculation.)

\*\*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:

	2018	2017
Retained Earnings	\$ 91,809	\$ 81,599
PCC	221,249	219,442
Less: CUSO investments (equity and cost)	(6,438)	(6,238)
Less: Excluded PCC*		(43,404)
Tier 1 Capital	306,620	251,399
Unamortized PIC	20	20
Add: Excluded PCC*		43,404
Tier 2 Capital	20	43,424
<b>TOTAL CAPITAL</b>	<b>\$ 306,640</b>	<b>\$ 294,823</b>

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

(Table dollar amounts in thousands)

As of December 31, 2018, MDANA and MDANRA were \$3.02 billion and \$911 million, respectively. As of December 31, 2017, MDANA and MDANRA were \$3.59 billion and \$908 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, 2018 and 2017, adjusted MDANA (used for the Leverage ratio) was \$3.01 billion and \$3.54 billion, respectively.

The following summarizes Corporate One's capital ratios as of December 31, 2018 and 2017.

	December 31, 2018	December 31, 2017
Retained earnings ratio	3.04%	2.27%
Leverage ratio	10.17%	7.10%
Tier 1 risk-based capital ratio	33.66%	27.70%
Total risk-based capital ratio	33.66%	32.48%

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, 2018 and 2017, Corporate One exceeded all the regulatory capital ratio requirements.

Corporate One's NEV sensitivity is limited by Part 704 of NCUA rules and regulations to a 20 percent change from base and an NEV ratio greater than the minimum regulatory ratio of 2.0 percent. If Corporate One fails to meet its NEV requirements for 30 calendar days, a detailed, written action plan that sets forth the time needed and means by which it intends to correct the violation must be submitted to the NCUA. In addition, discretionary actions by the NCUA are possible that could have a material effect on Corporate One's financial position and operations.

Throughout 2018 and 2017, we complied with the NEV sensitivity requirement and the NEV ratio requirement.

## (16) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is changes in accumulated other comprehensive income (loss) by component for the years ended December 31, 2018 and 2017.

	Unrealized Gains and Losses on Available-for-Sale Securities	
	2018	2017
Beginning balance – accumulated other comprehensive income (loss) by component	\$ 10,241,047	\$ (18,537,569)
Other comprehensive (loss) income before reclassification	(11,718,261)	30,971,090
Amounts reclassified from accumulated other comprehensive (loss) income	(2,131,138)	(2,192,474)
Net current period other comprehensive (loss) income	(13,849,399)	28,778,616
<b>ENDING BALANCE – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME BY COMPONENT</b>	<b>\$ (3,608,352)</b>	<b>\$ 10,241,047</b>

(Table dollar amounts in thousands)

The following are significant amounts reclassified out of accumulated other comprehensive income (loss) for the years ending December 31, 2018 and 2017.

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2018	Amount Reclassified From Accumulated Other Comprehensive Income (Loss) as of December 31, 2017	Affected Line Item in the Consolidated Statements of Income
Reclassification adjustment recognized in earnings for gain from sales of securities	\$ (2,131,138)	\$ (2,261,144)	Net gain on sales of securities
Reclassification adjustment recognized in earnings for other-than-temporary declines in values of securities		68,670	Net impairment losses recognized in earnings
<b>TOTAL RECLASSIFICATIONS FOR THE PERIOD</b>	<b>\$ (2,131,138)</b>	<b>\$ (2,192,474)</b>	