Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

and detailed Management's Discussion and Analysis, unaudited consolidated financial statements and footnotes

Second Quarter 2020

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Management's Discussion and Analysis of Financial Condition and Results of Operations

This section of Corporate One Federal Credit Union's (Corporate One) financial report should be read in conjunction with the Management's Discussion and Analysis and Financial Condition and Results of Operations in the 2019 Annual Report. The 2019 Annual Report can be found on Corporate One's public website www.corporateone.coop/About-Us/Due-Diligence.aspx.

Results of Operations

Income created by Corporate One's focus on diversified investing, fee income from a strong suite of brokerage and correspondent services and conscientious spending has resulted in retained earnings of $113.2 million at June 30, 2020, an increase of $15.8 million from June 30, 2019. We continually strive to balance the need to build retained earnings to meet regulatory capital requirements with our desire to invest in new products and services that will help our members. We believe it is critical to be both financially strong and an innovative partner to our members.

The following table summarizes Corporate One's results of operations and return on average assets (ROA) for the six months ended June 30, 2020, and 2019 (dollar amounts in thousands).

	Six months ended	
	June 30, 2020	June 30, 2019
Net interest income	$ 18,623	$ 19,323
Net service fee income	7,078	6,618
Operating expenses	(17,940)	(18,830)
Other gain	6,773	688
Net income	$ 14,534	$ 7,799
DANA for the six months ended	$ 4,951,719	$ 3,292,329
ROA	0.59%	0.47%

Our earnings for the six months ended June 30, 2020, were $14.5 million. This is approximately $6.7 million more than the previous year and is primarily related to net gains on sales of securities that were sold to reposition our investment portfolio into other classes of securities.

Year to date through June 30, 2020, net interest income was approximately $700,000 less than 2019. While our 2020 average balances were greater than average balances of 2019 due to increased liquidity in the credit union network, we recognized lower net interest income in 2020 due to a tighter spread between our assets and liabilities. Net service fee income for 2020 was approximately $460,000 more than net service fee income for 2019. Credit unions looked to invest their excess funds into several off-balance sheet products we offer, resulting in higher commission income from our brokerage services in 2020 over 2019. In addition, we recognized increased revenues from our wholly owned CUSOs over 2019. The decrease in operating expenses year over year relates to decreased office operations and occupancy expense along with a decrease in other operating expenses. The decrease in other operating expenses from 2019 is primarily related to reduced travel due to the current pandemic. The decrease in other operating expenses is partially offset by increased salaries and employee benefits expense as we are investing in people to ensure we can support our member credit unions in the rapidly changing world of technology and faster payments in the financial services arena.

Capital Position

As of June 30, 2020, our total regulatory capital (as defined by the NCUA) is $329.5 million, which is an increase of approximately $16.5 million since June 30, 2019. This increase in total regulatory capital is due to our strong earnings.

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.

The table (in thousands) below outlines the components of capital and the order of priority, listed in order from lowest to highest priority.

	June 30, 2020	June 30, 2019
Retained earnings	$ 113,210	$ 97,410
Paid in Capital (PIC)	20	20
PCC	223,365	222,149
Total regulatory capital account balances	336,595	319,579
Less: CUSO equity and cost investments	(7,103)	(6,576)
Total regulatory capital	$ 329,492	$ 313,003
Less: Unamortized PIC	(20)	(20)
Tier 1 Capital	$ 329,472	$ 312,983

The following table summarizes Corporate One's capital ratios as of June 30, 2020, and 2019 (dollar amounts in millions).

	June 30, 2020	June 30, 2019
Retained earnings ratio	2.69%	3.19%
Leverage ratio	7.85%	10.28%
Tier 1 risk-based capital ratio	22.75%	33.21%
Total risk-based capital ratio	22.75%	33.22%
MDANA^	$ 4,195	$ 3,044
MDANRA^^	$ 1,448	$ 942

^Moving Daily Average Net Assets
^^Moving Daily Average Net Risk-Weighted Assets

The decrease in both Tier 1 risk-based and Total risk-based capital ratios is due to a higher MDANRA in 2020 as compared to 2019. Corporate One is focused on maintaining strong capital levels, and, as shown in the table above, we exceed all NCUA's required capital ratios (see table below).

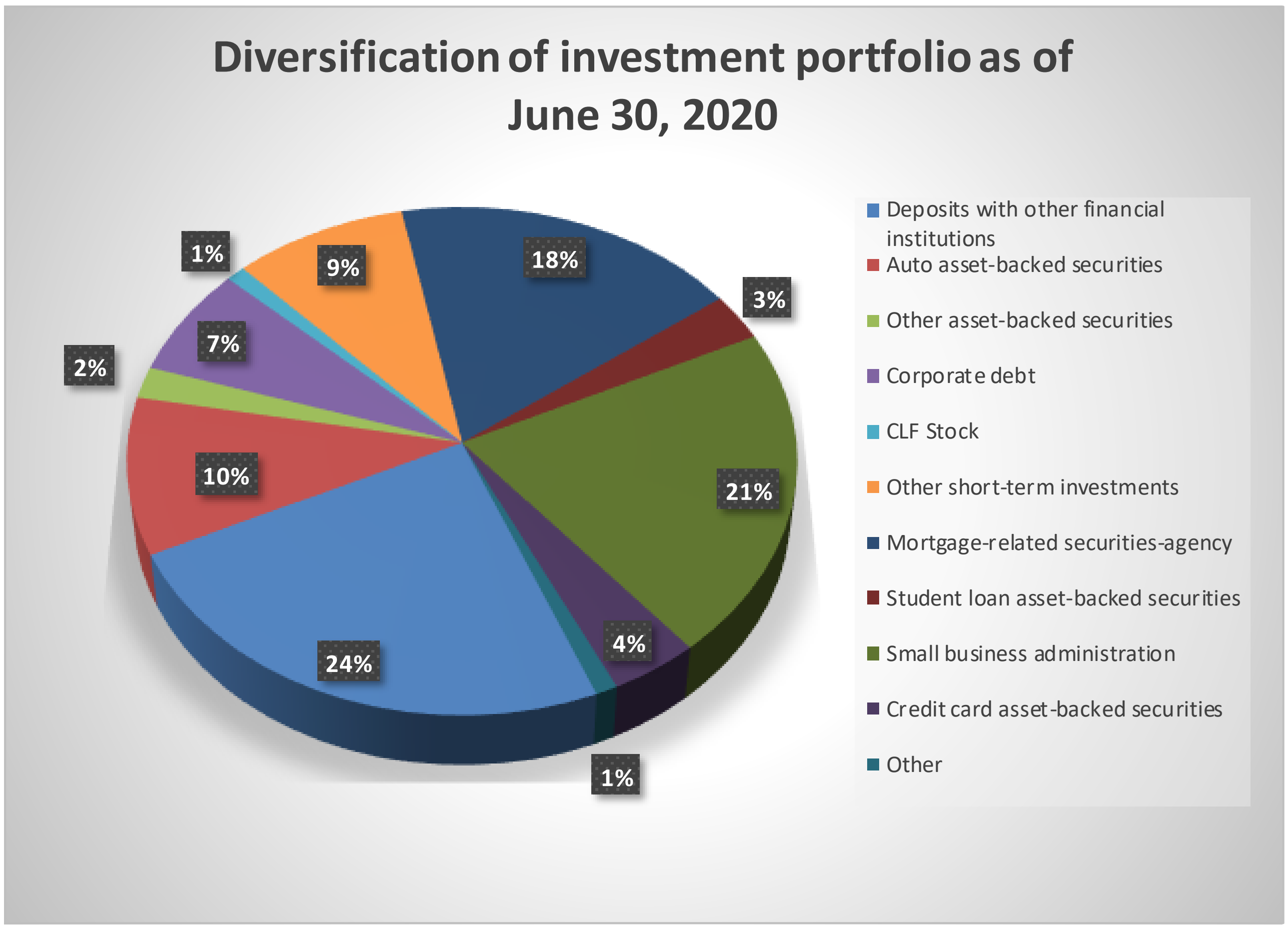
The following table summarizes the NCUA requirements for the various capital ratios.

	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%

See Footnote 7 for more information regarding the capital requirements of the revised regulation.

Credit Risk Management

We actively manage our balance sheet to ensure it is well diversified. We purchase investments based on high credit ratings, as determined by our risk management department and our internal standards, or issued by agencies of the U.S. government, or by other regulated depository institutions. Corporate One's portfolio diversification as of June 30, 2020, is shown in the figure below.



Our portfolio remains well diversified. Ninety-four percent of the amortized cost of our portfolio is in cash and cash equivalents, other short-term investments, agencies, and securities rated "A" or higher as assigned by Nationally Recognized Statistical Rating Organizations (NRSROs). Of the deposits we hold with other financial institutions, 86 percent is held at the Federal Reserve.

Market/Spread Risk

Because we invest in securities, we are also exposed to market risk due to liquidity and credit spreads. Overall fair values fell in June 2020, with our unrealized gains of $8.9 million in June 2019 falling to unrealized losses of $1.8 million. These net unrealized losses are the direct response to the immediate economic shock of the Coronavirus pandemic and do not necessarily reflect the actual gains/losses that would be realized if the assets were to be sold or held to maturity. We have experienced our portfolio recovering from the fall in March 2020 as the credit markets stabilize. We purchase highly rated securities and believe the unrealized losses are related to the current market turmoil and are not due to a lack of credit worthiness.

Interest Rate Risk Management

Our primary interest-rate-risk measurement tool is a 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 (bps).

Our NEV ratio remains well above the minimum NCUA requirement of 2 percent. Overall, our NEV ratio at June 30, 2020, was 5.95 percent in the base case and 5.35 percent in the 300-bps stress scenario.

The structure of our balance sheet results in minimal 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. This minimal interest-rate risk is demonstrated by the low percentage in NEV change between the base scenario and a 300 bps rise-in-rates scenario. Also, this percentage in NEV change is well within the maximum decline of 28 percent required by the NCUA.

A summary of Corporate One's NEV calculation as of June 30, 2020, and 2019 is shown below (dollar amounts in thousands).

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of June 30, 2020*				
300 bps rise in rates	$ 298,684	5.35%	$ (35,838)	-10.71%
Base scenario	$ 334,522	5.95%		
100 bps decline in rates	$ 336,149	5.97%	$ 1,627	0.49%
200 bps decline in rates	$ 336,150	5.97%	$ 1,628	0.49%
As of June 30, 2019*				
300 bps rise in rates	$ 317,664	9.08%	$ (12,970)	-3.92%
Base scenario	$ 330,634	9.41%		
100 bps decline in rates	$ 334,548	9.51%	$ 3,914	1.18%
200 bps decline in rates	$ 338,454	9.61%	$ 7,820	2.37%

*300 bps decline did not apply in the interest rate environment present on June 30, 2020, and 2019.

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 management strategies that 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 June 30, 2020, we had approximately $1.3 billion in cash and cash equivalents and $493.7 million in other short-term investments. These investments consist of commercial paper issued by A-rated companies and are expected to be converted into cash within one year. This is significant given our total balance sheet of $5.62 billion and settlement and regular shares of $5.04 billion. In addition, we strive to buy securities with readily determined market values that can be sold or borrowed against to generate liquidity.

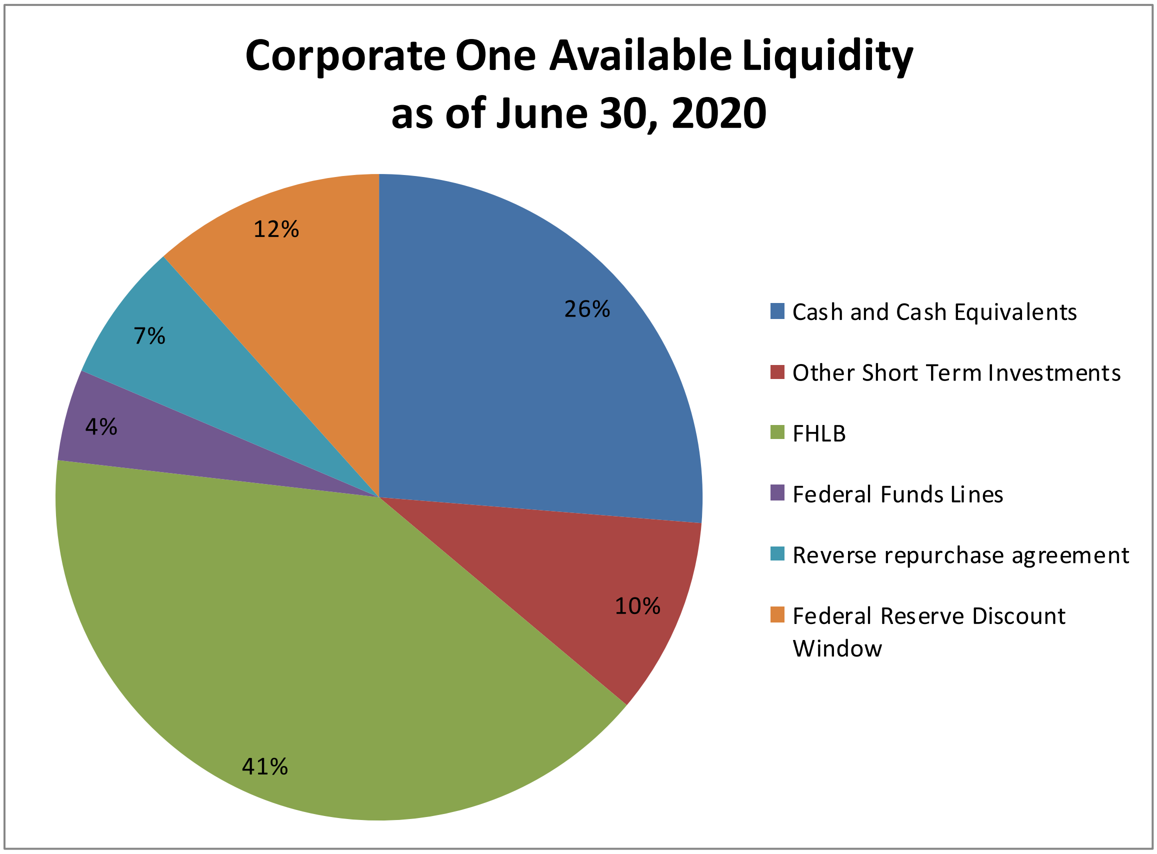
We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union may deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of June 30, 2020, our single largest depositor represented only seven percent of our total member shares.

At June 30, 2020, we had no outstanding borrowings; however, should we need to borrow to generate liquidity, we have diversified sources of funds, and we test these sources often to ensure availability. Corporate One's remaining borrowing capacity (total existing lines less borrowings outstanding) at June 30, 2020, was approximately $3.2 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $2.0 billion. This line of credit is secured by certain investments held in safekeeping at the FHLB. In addition, we maintain a reverse repurchase agreement with another party totaling $350.0 million. This agreement is secured using certain of our asset-backed securities as collateral, and we have recently tested this source to ensure that it represents a viable liquidity source. Also, we maintain $230.0 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing.

To further strengthen our liquidity position, we 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 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 Reserve Bank by collateral that is acceptable for that purpose. Corporate One's borrowing capacity at the Fed Discount Window was approximately $583.3 million at June 30, 2020.

The chart below details our available sources of liquidity.



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 $3.88 billion as of June 30, 2020. All outstanding line –of-credit commitments are collateralized by specific or general pledges of assets by members. Commitments to extend credit to members remain effective as long as there is no violation of any condition established in the agreement. Advances on these commitments generally require repayment within one year of the advance. Since a portion of the commitments is expected to terminate without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Consolidated Balance Sheets (unaudited)

Assets		June 30, 2020		June 30, 2019
Cash and cash equivalents	$	1,318,749,388	$	995,535,572
Other short term investments		493,683,478		199,498,764
Investments in financial institutions		82,879,118		41,678,800
Securities available for sale, at fair value		3,592,945,235		2,096,732,014
Loans		62,753,782		79,277,666
Accrued interest receivable		3,768,979		8,285,205
Goodwill		3,401,412		3,401,412
Intangible assets		3,683,417		5,760,957
Other assets		61,934,563		72,414,042
TOTAL ASSETS		5,623,799,372		3,502,584,432
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		5,035,039,580		2,869,652,069
Share certificates		246,512,782		267,577,011
Dividends and interest payable		135,033		239,054
Accounts payable and other liabilities		7,308,947		36,626,920
TOTAL LIABILITIES		5,288,996,342		3,174,095,054
Members' equity:				
Perpetual contributed capital		223,365,281		222,149,122
Retained earnings		113,209,996		97,409,873
Accumulated other comprehensive (loss) income		(1,772,247)		8,930,383
TOTAL MEMBERS' EQUITY		334,803,030		328,489,378
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	5,623,799,372	$	3,502,584,432

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (unaudited)

	Six Months Ended	
	June 30, 2020	June 30, 2019
Interest Income:		
Investments	$30,144,893	$46,427,777
Loans	518,805	1,107,466
Total Interest Income	30,663,698	47,535,243
Dividend And Interest Expense:		
Shares	12,032,308	27,534,322
Borrowed funds and other	8,688	677,830
Total Dividend And Interest Expense	12,040,996	28,212,152
Net Interest Income	18,622,702	19,323,091
Service Fee Income, Net	7,077,904	6,617,866
Salaries and employee benefits	12,379,735	11,804,371
Amortization of intangibles expense	1,033,094	1,122,290
Office operations and occupancy expense	3,544,501	4,169,079
Other operating expenses	982,305	1,734,753
Total Operating Expenses	17,939,635	18,830,493
Net Gain on Financial Instruments:		
Net gain on sales of securities	6,772,934	688,652
Net Gain on Financial Instruments	6,772,934	688,652
Net Income	$14,533,905	$7,799,116

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)

	Six Months Ended			
		June 30, 2020		**June 30, 2019**
Net Income	$	14,533,905	$	7,799,116
Other comprehensive (loss) income :				
Change in net unrealized (loss) gain on available-for-sale securities		(2,861,487)		13,227,387
Reclassification adjustment recognized in earnings for net gain on sales of securities		(6,772,934)		(688,652)
Total other comprehensive (loss) income		(9,634,421)		12,538,735
Comprehensive (Loss) Income	$	4,899,484	$	20,337,851

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity for the Six Months Ended June 30, 2020

(unaudited)

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Members' Equity
Balance At January 1, 2020	$ 223,365,281	$ 100,905,135	$ 7,862,174	$ 332,132,590
Net income		14,533,905		14,533,905
Other comprehensive loss			(9,634,421)	(9,634,421)
Dividends on PCC		(2,229,044)		(2,229,044)
Balance at June 30, 2020	$ 223,365,281	$ 113,209,996	$ (1,772,247)	$ 334,803,030

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Organization

The purpose of 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), Sherpa Technologies, LLC (Sherpa) and Accolade Investment Advisory, LLC (Accolade). The consolidated financial statements include the accounts of Corporate One and the three CUSOs. All significant intercompany accounts and transactions have been eliminated.

2. Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions. Corporate One is required to maintain cash or deposits with the Federal Reserve Bank. At June 30, 2020 and 2019, cash held prior to month-end was sufficient; therefore, no reserve was required.

3. 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 June 30, 2020, all other-short term investments held mature by March 2021.

4. Investments in Financial Institutions

Investments in financial institutions at June 30, 2020, and 2019 are summarized as follows (in thousands):

	June 30, 2020	June 30, 2019
Federal Home Loan Bank stock	$ 11,879	$ 25,082
Certificates of deposit	26,616	16,597
CLF Stock	44,384	
Total investments in financial institutions	$ 82,879	$ 41,679

In May 2020, Corporate One invested $44.38 million into the NCUA's Central Liquidity Facility (CLF) Agent Subscription Program on behalf of its member credit unions with assets under $250.0 million. This amount is included in investments in financial institutions in the accompanying consolidated balance sheets.

5. Securities

Corporate One holds debt securities classified as available-for-sale. This classification is made when debt securities 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.

The amortized cost and fair value of available-for-sale securities at June 30, 2020, and 2019 are as follows (in thousands):

	June 30, 2020		
	Amortized Cost	**Fair Value**	**Net Unrealized Gain (Loss)**
Available-for-sale securities:			
Mortgage-related securities	$ 1,027,824	$ 1,029,026	$ 1,202
Asset-backed securities	960,778	948,904	(11,874)
Small business administration	1,142,523	1,150,958	8,435
Corporate debt securities	463,592	464,057	465
Total available-for-sale securities	$ 3,594,717	$ 3,592,945	$ (1,772)

	June 30, 2019		
	Cost	**Fair Value**	**Net Unrealized Gain (Loss)**
Available-for-sale securities:			
Mortgage-related securities	$ 526,509	$ 535,190	$ 8,681
Asset-backed securities	428,287	421,821	(6,466)
Small business administration	740,536	746,420	5,884
Corporate debt securities	392,470	393,301	831
Total available-for-sale securities	$ 2,087,802	$ 2,096,732	$ 8,930

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. We are required to use the highest level of valuation available. 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.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2020 (in thousands).

		Fair Value Using		
Available-for-sale securities	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mortgage-related securities-agency	$ 1,020,434		$ 1,020,434	
Mortgage-related securities-private	8,592		3,131	$ 5,461
Asset-backed securities:				
Student loans-FFELP	174,198		174,198	
Student loans-private	849		603	246
Credit cards	501,328		501,328	
Automobiles	272,529		272,529	
SBA securities	1,150,958		1,150,958	
Corporate debt securities	464,057	$ 367,750	96,307	
Total available-for-sale securities	$ 3,592,945	$ 367,750	$ 3,219,488	$ 5,707

We evaluate all our securities for other-than-temporary impairment (OTTI) on a semi-annual basis. We 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 require 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 write-downs in the future.

For the securities where we believe not all principal and interest will be received, OTTI charges were recorded. The charges, which represent the estimated credit losses, are determined by calculating the difference between the discounted cash flows of the securities and their current amortized cost. We determined no OTTI was required during the first half of 2020.

6. 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 June 30, 2020, and 2019, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $2.26 billion and $1.19 billion, respectively, which provided a borrowing capacity of approximately $2.04 billion and $1.09 billion, respectively. At June 30, 2020, and 2019, Corporate One had no overnight borrowings outstanding with the FHLB.

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 June 30, 2020, and 2019, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately $612.6 million and $561.4 million, respectively, which provided a borrowing capacity of approximately $583.3 million and $536.8 million, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of June 30, 2020, and 2019.

7. Capital Ratios

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.

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 from Tier 1 capital to also be deducted from MDANA)
**Moving Daily Average Net Risk Weighted Assets
***As defined by the NCUA Rules and Regulations §704.2

The following table (in thousands) outlines the components of regulatory capital at June 30:

	2020	2019
Retained earnings	$ 113,210	$ 97,410
Add: PCC	223,365	222,149
Less: CUSO equity and cost investments	(7,103)	(6,576)
Tier 1 Capital	329,472	312,983
Add: Unamortized PIC	20	20
Tier 2 Capital	20	20
TOTAL REGULATORY CAPITAL	$ 329,492	$ 313,003

As of June 30, 2020, MDANA and MDANRA were $4.20 billion and $1.45 billion, respectively. As of June 30, 2019, MDANA and MDANRA were $3.05 billion and $942.3 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 June 30, 2020, and 2019, adjusted MDANA (used for the leverage ratios) was $4.19 billion and $3.04 billion, respectively.

The following summarizes Corporate One's capital ratios as of June 30, 2020, and 2019.

	June 30, 2020	June 30, 2019
Retained earnings ratio	2.69%	3.19%
Leverage ratio*	7.85%	10.28%
Tier 1 risk-based capital ratio	22.75%	33.21%
Total risk-based capital ratio	22.75%	33.22%

* 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. However, one such deduction was not built into the 5310 calculation and as a result our current 5310 reports an 7.84% leverage ratio.

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