Unaudited Financial Statements

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

First Quarter 2024

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

Results of Operations

The following is a summary of Corporate One's results of operations and return on average assets (ROA) for the three months ended March 31, 2024, and 2023 (dollar amounts in thousands).

	Three months ended			
		March 31, 2024		March 31, 2023
Net interest income	$	17,616	$	13,041
Non-interest income		3,847		3,806
Operating expenses		(10,141)		(9,746)
Other (loss) gain		(139)		
Core earnings		11,183		7,101
Gain on US Central estate settlement				16,854
Net income	$	11,183	$	23,955
DANA for the three months ended	$	6,075,820	$	5,460,267
ROA		0.74%		1.75%

During the first quarter of the year, our average balances were at levels greater than prior year, and as a result, we recognized $4.6 million more in net interest income as compared to prior year. Non-interest income for the first quarter of 2024 was slightly greater than non-interest income for the first quarter of 2023. We recognized increased income from our wholly owned CUSOs, as well as increased volumes related to our payment services. The increase in operating expenses year over year relates to an increase in salaries and employee benefits expenses. The increase in salaries and employee benefits expense over 2023 is a result of investing in people to ensure we can support our member credit unions in the rapidly changing world of technology and immediate payments in the financial services arena. Partially offsetting this increase in salaries and benefits over prior year is lower other operating expenses in 2024.

In March 2023, we recorded our fifth payment of $16.9 million, related to recovery distributions from the U.S. Central Federal Credit Union (US Central) Asset Management Estate. In 2009, US Central and four other corporates were conserved by the NCUA. At that time, the NCUA issued claim certificates to all liquidated corporate credit union membership: membership capital account and paid-in capital account holders. Any remaining funds, property, and other assets from these liquidated corporate credit unions are managed by the National Credit Union Share Insurance Fund (NCUSIF).

The NCUA regularly evaluates the US Central estate to determine sufficiency of funds, which would allow for distributions. Distributions from the estate began 2021 and we have received $178.1 million of the total $201.0 million US Central capital we original held. Should additional distributions be made, we will recognize these distributions as income when received.

Capital Position

As of March 31, 2024, our total regulatory capital (as defined by the NCUA) is $544.5 million, which is an increase of approximately $33.2 million since March 31, 2023. This increase in total regulatory capital is due to 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 listed in order from lowest to highest priority.

	March 31, 2024	March 31, 2023
Retained earnings	$ 324,235	$ 290,815
Paid in Capital (PIC)	20	20
Perpetual Contributed Capital (PCC)	226,993	226,993
Total regulatory capital account balances	551,248	517,828
Less: CUSO equity and cost investments	(6,741)	(6,475)
Total regulatory capital	$ 544,507	$ 511,353
Less: Unamortized PIC	(20)	(20)
Tier 1 Capital	$ 544,487	$ 511,333

The following summarizes Corporate One's capital ratios as of March 31, 2024, and 2023 (dollar amounts in millions):

	March 31, 2024	March 31, 2023
Retained earnings ratio	6.26%	5.05%
Leverage ratio	10.53%	8.89%
Tier 1 risk-based capital ratio	34.43%	24.46%
Total risk-based capital ratio	34.43%	24.46%
MDANA^	$ 5,170	$ 5,754
MDANRA^^	$ 1,581	$ 2,090

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

NCUA regulations allow corporate credit unions to include all member Perpetual Contributed Capital (PCC) in the Tier 1 Capital Ratio if the corporate's retained earnings ratio is above 250 basis points. Any required exclusion of PCC is based on a calculation measuring the relationship between PCC, retained earnings and Moving Daily Average Net Assets (MDANA). With Corporate One's current retained earnings ratio well above the 250-basis points level, there was no exclusion of PCC from the Tier 1 Capital Ratio calculation.

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).

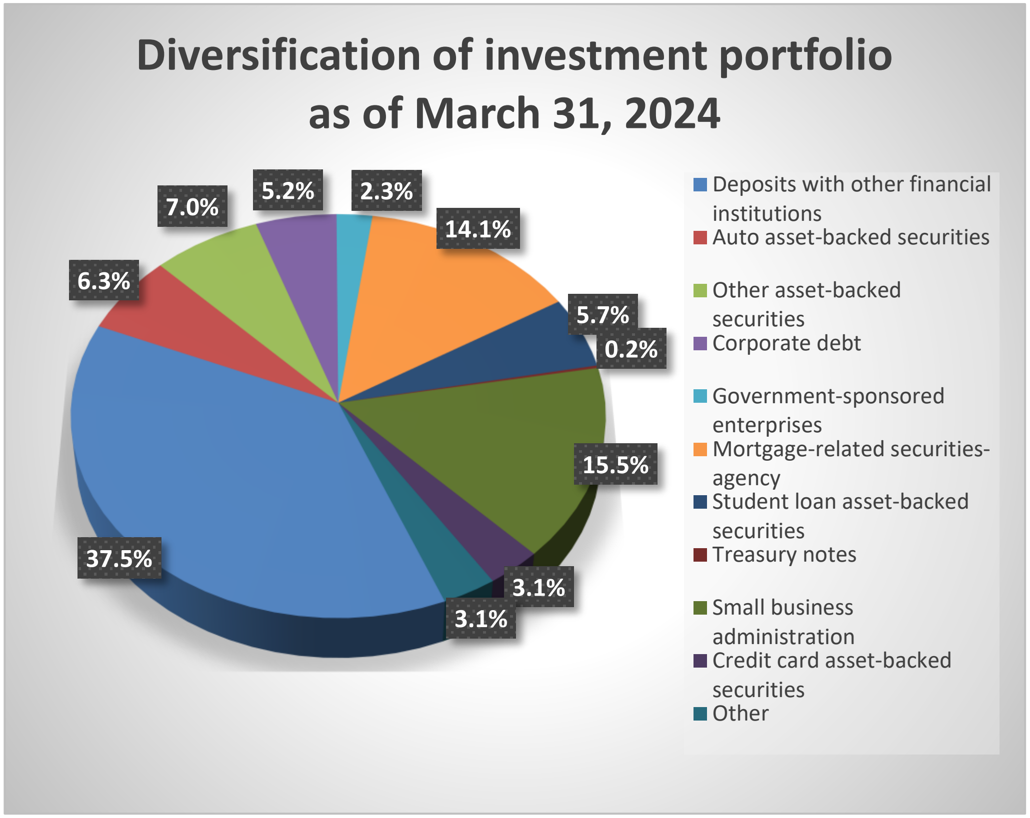
The following summarizes the NCUA requirements for the various capital ratios:

	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 6 for more information regarding the capital requirements of the 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 March 31, 2024, 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, 98 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. 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, and as of March 31, 2024, we do not have any securities classified as held-to-maturity. The available-for-sale classification 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.

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 bps. Our NEV ratio remains well above the minimum NCUA requirement of two percent. Overall, our NEV ratio at March 31, 2024, was 7.99 percent in the base case and 7.52 percent in the 300-bps rise in rate 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 20 percent required by the NCUA.

A summary of Corporate One's NEV calculation as of March 31, 2024, and 2023 is shown below (dollar amounts in thousands).

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of March 31, 2024				
300 bps rise in rates	$ 508,418	7.52%	$ (34,717)	-6.39%
200 bps rise in rates	$ 524,639	7.74%	$ (18,496)	-3.41%
100 bps rise in rates	$ 536,330	7.90%	$ (6,805)	-1.25%
Base scenario	$ 543,135	7.99%		
100 bps decline in rates	$ 546,826	8.04%	$ 3,691	0.68%
200 bps decline in rates	$ 549,634	8.08%	$ 6,499	1.20%
300 bps decline in rates	$ 552,786	8.12%	$ 9,651	1.78%

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of March 31, 2023				
300 bps rise in rates	$ 450,195	8.26%	$ (25,615)	-5.38%
200 bps rise in rates	$ 459,944	8.42%	$ (15,866)	-3.33%
100 bps rise in rates	$ 468,398	8.56%	$ (7,412)	-1.56%
Base scenario	$ 475,810	8.68%		
100 bps decline in rates	$ 482,089	8.78%	$ 6,279	1.32%
200 bps decline in rates	$ 487,955	8.87%	$ 12,145	2.55%
300 bps decline in rates	$ 491,042	8.92%	$ 15,232	3.02%

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.

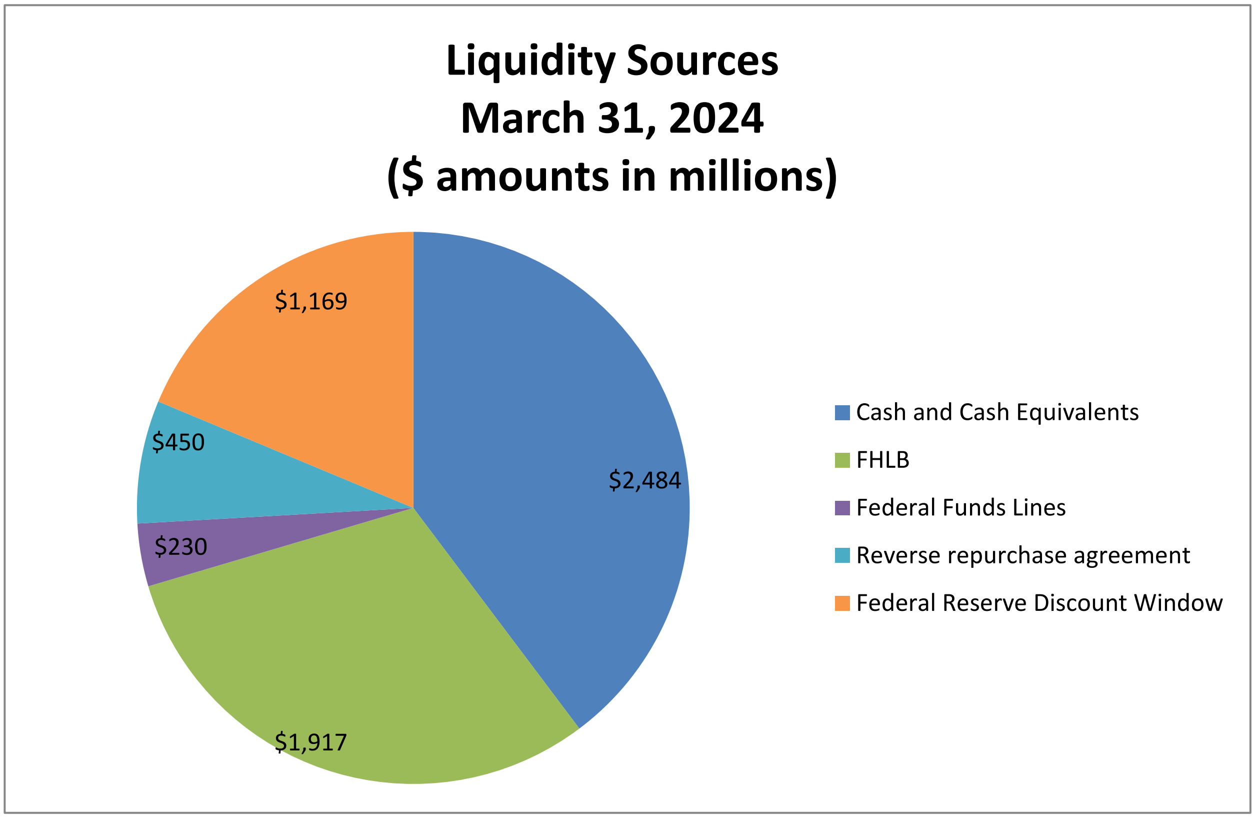
We constantly monitor our members' demands on our liquidity and evaluate the adequacy of our liquidity sources. To meet day-to-day member liquidity requirements, we keep a portion of our assets very liquid. As of March 31, 2024, we had approximately $2.48 billion in cash and cash equivalents. In addition, 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. As of March 31, 2024, our single largest depositor represented thirteen percent of our total member shares.

As of March 31, 2024, we had $291 million in overnight borrowings outstanding. Corporate One's remaining borrowing capacity (total existing lines less borrowings outstanding) at March 31, 2024, was approximately $3.77 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $1.92 billion. This line of credit is secured by certain investments held in safekeeping at the FHLB. As of March 31, 2024, we had $291 million overnight borrowings outstanding with the FHLB. In addition, we maintain a reverse repurchase agreement with another party, totaling $450 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 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing.

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 $1.17 billion at March 31, 2024.

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 $7.82 billion as of March 31, 2024. 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)

CORPORATE ONE FEDERAL CREDIT UNION
CONSOLIDATED BALANCE SHEETS

Assets	**March 31, 2024**	**March 31, 2023**
Cash and cash equivalents	$ 2,483,547,219	$ 1,742,416,044
Investments in financial institutions	63,541,800	63,282,300
Securities available for sale, at fair value	3,937,468,031	3,247,009,485
Loans	158,446,962	283,800,079
Accrued interest receivable	39,432,353	26,063,083
Goodwill	3,395,730	3,395,730
Other assets	104,600,147	107,342,516
TOTAL ASSETS	6,790,432,242	5,473,309,237
Liabilities and Members' Equity		
Liabilities:		
Settlement and regular shares	5,386,290,559	4,264,787,511
Share certificates	475,116,014	510,701,143
Borrowed funds	291,000,000	190,000,000
Dividends and interest payable	6,025,172	3,085,320
Accounts payable and other liabilities	92,495,990	35,271,705
TOTAL LIABILITIES	6,250,927,735	5,003,845,679
Members' equity:		
Perpetual contributed capital	226,992,520	226,992,520
Retained earnings	324,235,638	290,814,970
Accumulated other comprehensive loss	(11,723,651)	(48,343,932)
TOTAL MEMBERS' EQUITY	539,504,507	469,463,558
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 6,790,432,242	$ 5,473,309,237

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 2024	**March 31, 2023**
Interest Income:		
Investments	$86,151,991	$60,608,590
Loans	2,302,198	3,163,049
Total Interest Income	88,454,189	63,771,639
Dividend And Interest Expense:		
Shares	63,328,010	42,072,442
Borrowed funds and other	7,510,388	8,658,680
Total Dividend And Interest Expense	70,838,398	50,731,122
Net Interest Income	17,615,791	13,040,517
Non-Interest Income	3,847,688	3,806,352
Salaries and employee benefits	7,656,191	7,299,258
Office operations and occupancy expense	2,120,398	2,023,901
Other operating expenses	364,253	422,333
Total Operating Expenses	10,140,842	9,745,492
Net (Loss) Gain on Financial Instruments:		
Net (loss) gain on sales of securities	(139,173)	
Net (Loss) Gain on Financial Instruments	(139,173)	
Gain on US Central estate settlement		16,853,740
Net Income	11,183,464	23,955,117

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended March 31,2024	Three Months Ended March 31,2023
Net Income	$ 11,183,464	$ 23,955,117
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	18,162,679	18,776,876
Change in net unrealized gain (loss) on cash flow hedge	756,197	(449,718)
Reclassification adjustment recognized in earnings for net interest on daily market accounts	(379,049)	(309,862)
Reclassification adjustment recognized in earnings for net loss on sales of securities	139,173	
Total other comprehensive income	18,679,000	18,017,296
Comprehensive Income	$ 29,862,464	$ 41,972,413

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity for the Three Months Ended March 31, 2024 (unaudited)

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance At January 1, 2024	$ 226,992,520	$ 316,299,546	$ (30,402,651)	$ 512,889,415
Net income		11,183,464		11,183,464
Other comprehensive income			18,679,000	18,679,000
Dividends on PCC, net		(3,247,372)		(3,247,372)
Balance at March 31, 2024	$ 226,992,520	$ 324,235,638	$ (11,723,651)	$ 539,504,507

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 two active credit union service organizations (CUSOs): Lucro Commercial Solutions, LLC (Lucro) and Accolade Investment Advisory, LLC (Accolade). The consolidated financial statements include the accounts of Corporate One and our wholly owned CUSOs. All significant intercompany accounts and transactions have been eliminated.

2. Cash and Cash Equivalents

Cash and cash equivalents include cash, amounts due from depository institutions and federal funds sold. To further diversify our liquidity options, we elect to voluntarily hold Reg D reserves in order to gain access to the Federal Reserve Discount Window.

3. Investments in Financial Institutions

Investments in financial institutions at March 31, 2024, and 2023 are summarized as follows (in thousands):

	March 31, 2024	March 31, 2023
Federal Home Loan Bank stock	$ 49,654	$ 50,138
Certificates of deposit	13,888	13,144
Total investments in financial institutions	$ 63,542	$ 63,282

4. 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 March 31, 2024, and 2023 are as follows (in thousands):

	March 31, 2024		
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities-agency	$ 941,531	$ 936,682	$ (4,849)
Asset-backed securities	1,468,852	1,450,436	(18,416)
Small business administration	1,028,623	1,037,056	8,433
Treasury notes	14,972	14,733	(239)
Government-sponsored enterprises	155,099	155,493	394
Corporate debt securities	344,481	343,068	(1,413)
Total available-for-sale securities	$ 3,953,558	$ 3,937,468	$ (16,090)

	March 31, 2023		
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities-agency	$ 565,216	$ 557,534	$ (7,682)
Asset-backed securities	1,034,133	998,702	(35,431)
Small business administration	818,415	820,599	2,184
Treasury notes	17,863	17,586	(277)
Government-sponsored enterprises	189,425	189,420	(5)
Corporate debt securities	674,475	663,168	(11,307)
Total available-for-sale securities	$ 3,299,527	$ 3,247,009	$ (52,518)

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 March 31, 2024 (in thousands).

Available-for-sale securities	Total Fair Value	Fair Value Using 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	$ 936,682		$ 936,682	
Asset-backed securities:				
Student loans-FFELP	345,560		345,560	
Student loans-private	25,970		25,970	
Credit cards	203,173		203,173	
Automobiles	410,112		410,112	
Other	465,621		465,621	
SBA securities	1,037,056		1,037,056	
Government-sponsored enterprises	155,493		155,493	
Corporate debt securities	343,068	$ 343,068		
Treasury Notes	14,733		14,733	
Total available-for-sale securities	$ 3,937,468	$ 343,068	$ 3,594,400	

We evaluate all our securities for credit losses at least semi-annually, and more frequently when economic or market conditions warrant such an evaluation. For available-for-sale securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as a write-down through earnings. For debt securities that do not meet the aforementioned criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. As of March 31, 2024, we believe the gross losses on all of these securities are temporary and that fair values will approximate amortized costs as the securities near maturity, and that no valuation allowance for recognizing credit losses was necessary.

5. 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 March 31, 2024, and 2023, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $2.16 billion and $1.62 billion, respectively, which provided a borrowing capacity of approximately $1.92 billion and $1.52 billion, respectively. At March 31, 2024, and 2023, Corporate One had $291 million and $190 million, respectively, in overnight borrowings outstanding with the FHLB. We also maintain $230 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing. As of March 31, 2024, and 2023, no overnight borrowings were outstanding on our federal funds lines.

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 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. At March 31, 2024, and 2023, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately $1.30 million and $1.12 billion, respectively, which provided a borrowing capacity of approximately $1.17 billion and $1.06 billion, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of March 31, 2024, and 2023.

6. 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%

*MDANA (NCUA Rules and Regulations §704.2 allows for the deductions from Tier 1 capital to also be deducted from Moving)
**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 as of March 31, 2024, and 2023 (dollar amounts in thousands):

	March 31, 2024	March 31, 2023
Retained earnings	$ 324,235	$ 290,815
Add: PCC	226,993	226,993
Less: CUSO equity and cost investments	(6,741)	(6,475)
Tier 1 Capital	544,487	511,333
Add: Unamortized PIC	20	20
Tier 2 Capital	20	20
TOTAL REGULATORY CAPITAL	$ 544,507	$ 511,353

The following summarizes Corporate One's capital ratios as of March 31, 2024, and 2023 (dollar amounts in millions):

	March 31, 2024	March 31, 2023
Retained earnings ratio	6.26%	5.05%
Leverage ratio*	10.53%	8.89%
Tier 1 risk-based capital ratio	34.43%	24.46%
Total risk-based capital ratio	34.43%	24.46%
MDANA^	$ 5,170	$ 5,754
MDANRA^^	$ 1,581	$ 2,090

* 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 a 10.52% leverage ratio.
^Moving Daily Average Net Assets
^^Moving Daily Average Net Risk-Weighted Assets

NCUA regulations allow corporate credit unions to include all member PCC in the Tier 1 Capital Ratio if the corporate's retained earnings ratio is above 250 basis points. Any required exclusion of PCC is based on a calculation measuring the relationship between the PCC, retained earnings and MDANA. With Corporate One's current retained earnings ratio well above the 250-basis points level, there was no exclusion of PCC from the Tier 1 Capital Ratio calculation.

7. Derivatives

Corporate One uses derivative instruments primarily to minimize the effects of interest rate volatility on net interest income. The derivative financial instruments are recorded in the Consolidated Balance Sheet as either an asset or a liability (under Other Assets or Accounts Payable and Other Liabilities) and measured at fair value.

Cash Flow Hedges: An interest rate swap with a notional amount totaling $31.5 million as of March 31, 2024, was designated as a cash flow hedge of certain daily overnight market share accounts and was determined to be highly effective during all periods presented. The gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Corporate One expects the hedge to remain effective during the remaining term of the swap. As of March 31, 2023, there were $31.5 million in cash flow hedges outstanding.

Fair Value Hedges: Twenty-two interest rate swaps with notional amounts totaling $531.2 million as of March 31, 2024, were designated as fair value hedges. Seventeen fixed-rate available-for-sale securities and five transactions tied to a term loan were determined to be effective during all periods presented. The gain or loss on the derivatives, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk, are recognized in current earnings as fair value changes. Corporate One expects the hedges to remain effective during the remaining term of the swaps. As of March 31, 2023, there were $306 million fair value hedges outstanding.

The notional amount and fair value of the derivatives on a gross basis at March 31, 2024, and 2023, are as follows (in thousands):

	March 31, 2024		March 31, 2023	
	Notional Amount	**Fair Value**	**Notional Amount**	**Fair Value**
Included in other assets:				
Derivatives designated as hedging instruments:				
Interest rate swaps – Cash flow	$ 31,470	$ 4,366	$ 31,470	$ 4,174
Interest rate swaps – Fair value	531,213	20,486	306,010	18,249
Total included in other assets	$ 562,683	$ 24,852	$ 337,480	$ 22,423

Corporate One's interest rate swaps are with US Bank. The hedges require collateral when they exceed certain thresholds of the fair value to protect from counterparty default. As of March 31, 2024, Corporate One held collateral from US Bank in the amounts of $29.28 million and $1.73 million related to fair value and cashflow hedges, respectively. As of March 31, 2023, Corporate One held collateral from US Bank in the amounts of $23.09 million and $2.38 million related to fair value and cashflow hedges, respectively.

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