Corporate One
FEDERAL CREDIT UNION

# Unaudited Financial Statements

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

**Second 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 six months ended June 30, 2024, and 2023 (dollar amounts in thousands).

| | Six months ended | |
|---|---|---|
| | June 30, 2024 | June 30, 2023 |
| Net interest income | $ 36,098 | $ 27,817 |
| Non-interest income | 7,854 | 7,529 |
| Operating expenses | (20,746) | (19,792) |
| Other (loss) gain | (139) | (443) |
| Core earnings | 23,067 | 15,111 |
| Gain on US Central estate settlement | | 16,854 |
| Net income | $ 23,067 | $ 31,965 |
| DANA for the six months ended | $ 6,404,668 | $ 5,317,276 |
| ROA | 0.72% | 1.20% |

During the first half of 2024, our average balances were at levels greater than prior year, and as a result, we recognized $8.3 million more in net interest income as compared to prior year. Non-interest income for the first half of 2024 was slightly greater than non-interest income for the first half of 2023. We recognized increased income from our wholly owned CUSOs and vault services, as well as increased payment services volumes. The increase in operating expenses year over year primarily relates to an increase in employee salaries and benefits expenses. It is important that we support our member credit unions in the rapidly changing world of technology and immediate payments in the financial services arena, therefore we are investing in our staff to ensure they can perform to our members’ needs. 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. Through June 30, no distributions have been received in 2024. Should additional distributions be made, we will recognize these distributions as income when received.

## Capital Position

As of June 30, 2024, our total regulatory capital (as defined by the NCUA) is $553.8 million, which is an increase of approximately $37.3 million since June 30, 2023. This increase in total regulatory capital is due to earnings.

The NCUA Rules and Regulations, Part 704, governs 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.

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Retained earnings | $ 332,680 | $ 295,993 |
| Paid in Capital (PIC) | 20 | 20 |
| Perpetual Contributed Capital (PCC) | 227,892 | 226,993 |
| Total regulatory capital account balances | 560,592 | 523,006 |
| Less: CUSO equity and cost investments | (6,830) | (6,572) |
| Total regulatory capital | $ 553,762 | $ 516,434 |
| Less: Unamortized PIC | (20) | (20) |
| Tier 1 Capital | $ 553,742 | $ 516,414 |

The following summarizes Corporate One’s capital ratios as of June 30, 2024, and 2023 (dollar amounts in millions):

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Retained earnings ratio | 5.98% | 5.38% |
| Leverage ratio | 9.96% | 9.39% |
| Tier 1 risk-based capital ratio | 32.69% | 27.72% |
| Total risk-based capital ratio | 32.69% | 27.72% |
| MDANA^ | $ 5,567 | $ 5,506 |
| MDANRA^^ | $ 1,694 | $ 1,863 |

^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).

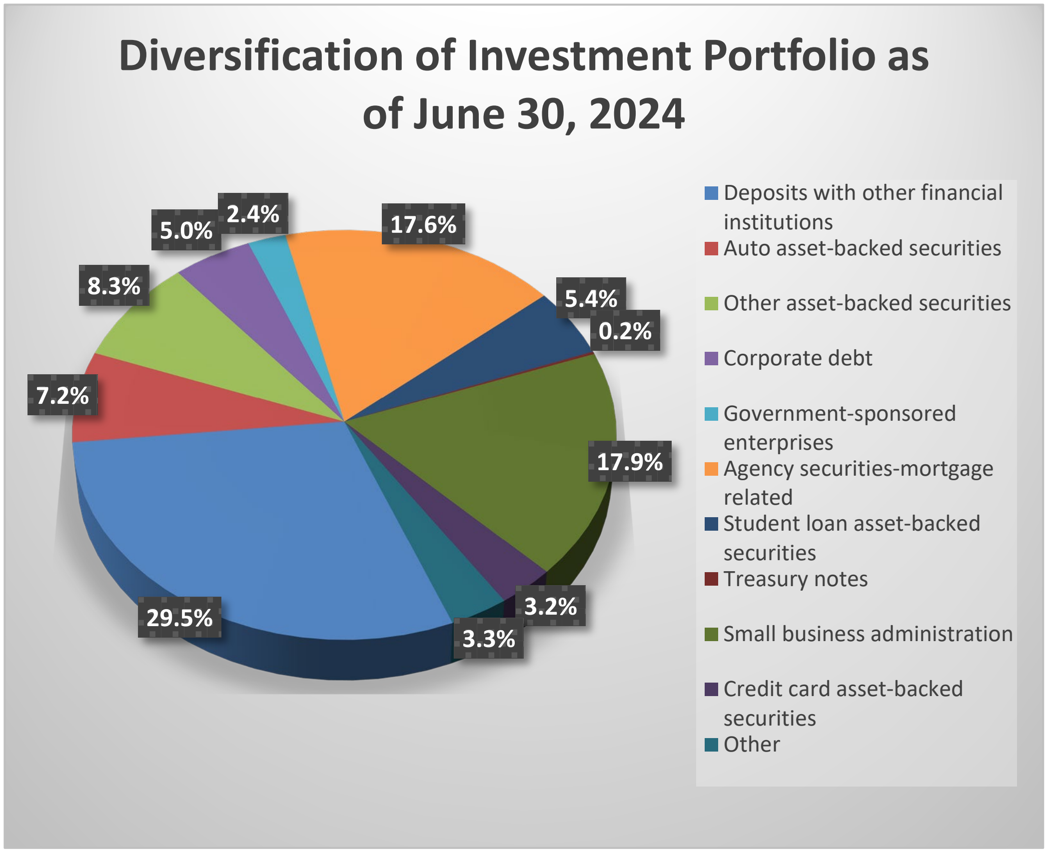
The following summarizes the NCUA requirements for the various capital ratios:

| | 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 June 30, 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, 97 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 June 30, 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 June 30, 2024, was 8.37 percent in the base case and 7.65 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 June 30, 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 June 30, 2024** | | | | |
| 300 bps rise in rates | $ 507,728 | 7.65% | $ (52,538) | -9.38% |
| 200 bps rise in rates | $ 532,698 | 8.00% | $ (27,568) | -4.92% |
| 100 bps rise in rates | $ 551,133 | 8.25% | $ (9,133) | -1.63% |
| Base scenario | $ 560,266 | 8.37% | | |
| 100 bps decline in rates | $ 563,541 | 8.42% | $ 3,275 | 0.58% |
| 200 bps decline in rates | $ 565,512 | 8.44% | $ 5,246 | 0.94% |
| 300 bps decline in rates | $ 567,607 | 8.47% | $ 7,341 | 1.31% |

| | Net Economic Value | NEV Ratio | Actual Dollar Change from Base | Percentage Change from Base |
|---|---|---|---|---|
| **As of June 30, 2023** | | | | |
| 300 bps rise in rates | $ 458,627 | 8.56% | $ (24,130) | -5.00% |
| 200 bps rise in rates | $ 467,657 | 8.71% | $ (15,100) | -3.13% |
| 100 bps rise in rates | $ 476,115 | 8.85% | $ (6,643) | -1.38% |
| Base scenario | $ 482,757 | 8.96% | | |
| 100 bps decline in rates | $ 487,694 | 9.04% | $ 4,937 | 1.02% |
| 200 bps decline in rates | $ 491,797 | 9.10% | $ 9,040 | 1.87% |
| 300 bps decline in rates | $ 495,694 | 9.17% | $ 12,937 | 2.68% |

## 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.

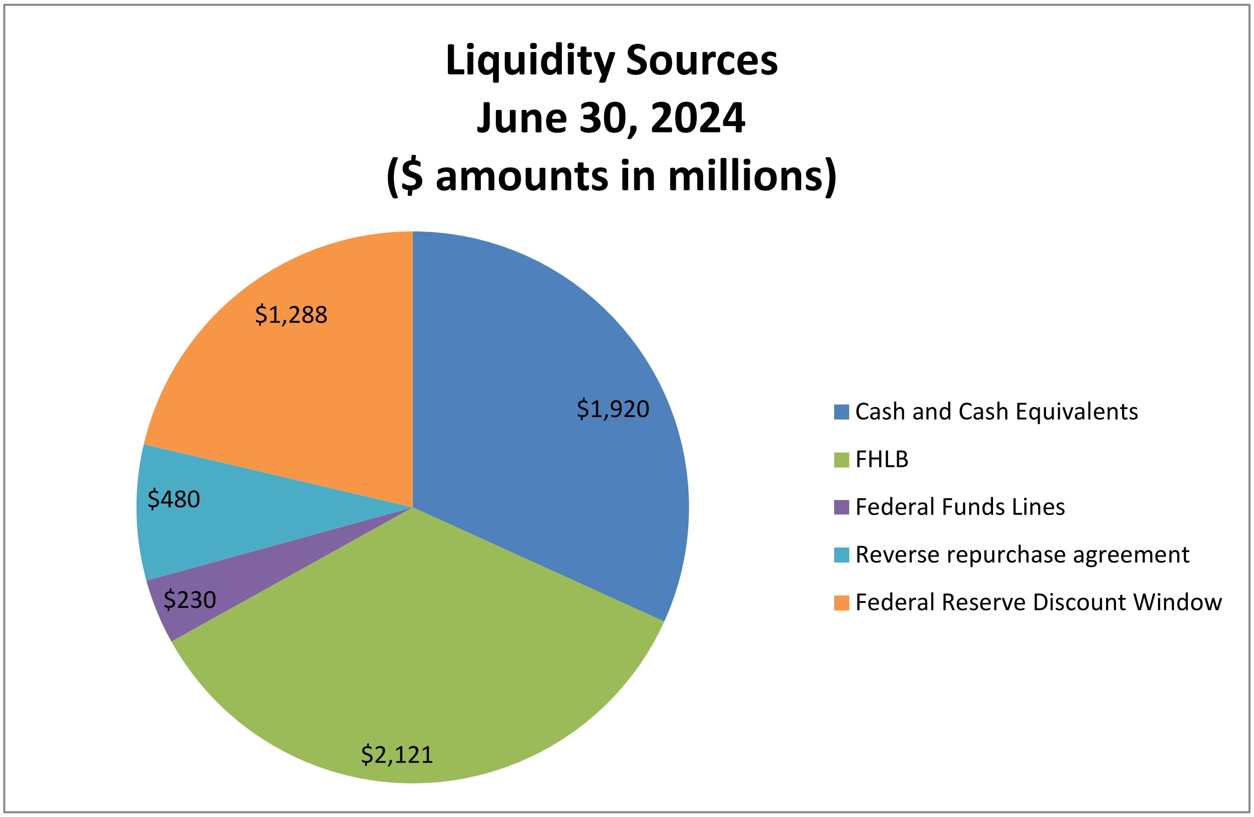
We constantly monitor our members' demands on our liquidity and evaluate the adequacy of our liquidity sources. To meet day-to-day member liquidity requirements, we keep a portion of our assets very liquid. As of June 30, 2024, we had approximately $1.92 billion in cash and cash equivalents. In addition, 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 June 30, 2024, our single largest depositor represented twelve percent of our total member shares.

Corporate One's remaining borrowing capacity (total existing lines less borrowings outstanding) at June 30, 2024, was approximately $3.84 billion. The only outstanding borrowing as of that date was through the Federal Home Loan Bank of Cincinnati (FHLB), with overnight borrowings totaling $281.5 million. Our line of credit with the FHLB is approximately $2.12 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 $480 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 $1.29 billion at June 30, 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 $8.20 billion as of June 30, 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** | **June 30, 2024** | **June 30, 2023** |
|---|---|---|
| Cash and cash equivalents | $ 1,919,539,445 | $ 1,903,918,778 |
| Investments in financial institutions | 60,769,700 | 62,797,800 |
| Securities available for sale, at fair value | 4,384,618,881 | 3,060,938,964 |
| Loans | 167,304,159 | 220,710,901 |
| Accrued interest receivable | 44,285,356 | 27,789,892 |
| Goodwill | 3,395,730 | 3,395,730 |
| Other assets | 107,381,523 | 102,702,510 |
| TOTAL ASSETS | 6,687,294,794 | 5,382,254,575 |
| **Liabilities and Members' Equity** | | |
| Liabilities: | | |
| Settlement and regular shares | 5,346,071,246 | 4,245,475,034 |
| Share certificates | 443,932,791 | 380,419,011 |
| Borrowed funds | 281,500,000 | 237,000,000 |
| Dividends and interest payable | 7,955,789 | 3,858,111 |
| Accounts payable and other liabilities | 48,634,534 | 38,824,825 |
| TOTAL LIABILITIES | 6,128,094,360 | 4,905,576,981 |
| Members' equity: | | |
| Perpetual contributed capital | 227,892,520 | 226,992,520 |
| Retained earnings | 332,679,909 | 295,992,900 |
| Accumulated other comprehensive loss | (1,371,995) | (46,307,826) |
| TOTAL MEMBERS' EQUITY | 559,200,434 | 476,677,594 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | $ 6,687,294,794 | $ 5,382,254,575 |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income (unaudited)

| | Six Months Ended | |
|---|---|---|
| | **June 30, 2024** | **June 30, 2023** |
| Interest Income: | | |
| Investments | $182,972,363 | $125,580,998 |
| Loans | 4,534,712 | 6,094,228 |
| Total Interest Income | 187,507,075 | 131,675,226 |
| Dividend And Interest Expense: | | |
| Shares | 135,269,282 | 91,142,232 |
| Borrowed funds and other | 16,139,524 | 12,716,120 |
| Total Dividend And Interest Expense | 151,408,806 | 103,858,352 |
| Net Interest Income | 36,098,269 | 27,816,874 |
| Non-Interest Income | 7,853,889 | 7,528,833 |
| Salaries and employee benefits | 15,560,797 | 14,673,387 |
| Office operations and occupancy expense | 4,303,412 | 4,157,498 |
| Other operating expenses | 881,327 | 961,111 |
| Total Operating Expenses | 20,745,536 | 19,791,996 |
| Net Loss on Financial Instruments: | | |
| Net loss on sales of securities | (139,173) | (442,866) |
| Net Loss on Financial Instruments | (139,173) | (442,866) |
| Core Earnings | $23,067,449 | $15,110,845 |
| Gain on US Central estate settlement | | 16,853,740 |
| Net Income | $23,067,449 | $31,964,585 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Comprehensive Income (unaudited)

| | Six Months Ended June 30,2024 | Six Months Ended June 30,2023 |
|---|---|---|
| Net Income | $ 23,067,449 | $ 31,964,585 |
| Other comprehensive income : | | |
| Change in net unrealized gain on available-for-sale securities | 28,572,591 | 19,729,515 |
| Change in net unrealized gain on cash flow hedge | 1,083,035 | 544,475 |
| Reclassification adjustment recognized in earnings for net interest on daily market accounts | (764,143) | (663,454) |
| Reclassification adjustment recognized in earnings for net loss on sales of securities | 139,173 | 442,866 |
| Total other comprehensive income | 29,030,656 | 20,053,402 |
| Comprehensive Income | $ 52,098,105 | $ 52,017,987 |

See accompanying notes to consolidated financial statements.

# Consolidated Statement of Changes in Members' Equity for the Six Months Ended June 30, 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 | | 23,067,449 | | 23,067,449 |
| Other comprehensive income | | | 29,030,656 | 29,030,656 |
| Issuance of PCC | 900,000 | | | 900,000 |
| Dividends on PCC, net | | (6,687,086) | | (6,687,086) |
| Balance at June 30, 2024 | $ 227,892,520 | $ 332,679,909 | $ (1,371,995) | $ 559,200,434 |

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 June 30, 2024, and 2023 are summarized as follows (in thousands):

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Federal Home Loan Bank stock | $ 49,114 | $ 49,654 |
| Certificates of deposit | 11,656 | 13,144 |
| Total investments in financial institutions | $ 60,770 | $ 62,798 |

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 June 30, 2024, and 2023 are as follows (in thousands):

| | June 30, 2024 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Net Unrealized Gain (Loss) |
| **Available-for-sale securities:** | | | |
| Mortgage-related securities-agency | $ 1,151,798 | $ 1,148,378 | $ (3,420) |
| Asset-backed securities | 1,576,467 | 1,563,534 | (12,933) |
| Small business administration | 1,172,554 | 1,183,706 | 11,152 |
| Treasury notes | 9,983 | 9,788 | (195) |
| Government-sponsored enterprises | 155,093 | 155,439 | 346 |
| Corporate debt securities | 324,404 | 323,774 | (630) |
| Total available-for-sale securities | $ 4,390,299 | $ 4,384,619 | $ (5,680) |

| | June 30, 2023 | | |
|---|---|---|---|
| | Amortized Cost | Fair Value | Net Unrealized Gain (Loss) |
| **Available-for-sale securities:** | | | |
| Mortgage-related securities-agency | $ 561,398 | $ 551,529 | $ (9,869) |
| Asset-backed securities | 986,510 | 948,649 | (37,861) |
| Small business administration | 813,783 | 816,867 | 3,084 |
| Treasury notes | 17,905 | 17,452 | (453) |
| Government-sponsored enterprises | 109,425 | 109,530 | 105 |
| Corporate debt securities | 623,040 | 616,912 | (6,128) |
| Total available-for-sale securities | $ 3,112,061 | $ 3,060,939 | $ (51,122) |

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, 2024 (in thousands).

| Available-for-sale securities | Total Fair Value | Fair Value Using<br>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 | $ 1,148,378 | | $ 1,148,378 | |
| Asset-backed securities: | | | | |
| Student loans-FFELP | 325,082 | | 325,082 | |
| Student loans-private | 24,678 | | 24,678 | |
| Credit cards | 206,884 | | 206,884 | |
| Automobiles | 460,130 | | 460,130 | |
| Other | 546,760 | | 546,760 | |
| SBA securities | 1,183,706 | | 1,183,706 | |
| Government-sponsored enterprises | 155,439 | | 155,439 | |
| Corporate debt securities | 323,774 | $ 323,774 | | |
| Treasury Notes | 9,788 | | 9,788 | |
| Total available-for-sale securities | $ 4,384,619 | $ 323,774 | $ 4,060,845 | |

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 June 30, 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 June 30, 2024, and 2023, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $2.51 billion and $1.30 billion, respectively, which provided a borrowing capacity of approximately $2.12 billion and $1.16 billion, respectively. At June 30, 2024, and 2023, Corporate One had $281.5 million and $237 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 June 30, 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 June 30, 2024, and 2023, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately $1.48 billion and $1.28 billion, respectively, which provided a borrowing capacity of approximately $1.29 billion and $1.22 billion, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of June 30, 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 June 30, 2024, and 2023 (dollar amounts in thousands):

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Retained earnings | $ 332,680 | $ 295,993 |
| Add: PCC | 227,892 | 226,993 |
| Less: CUSO equity and cost investments | (6,830) | (6,572) |
| Tier 1 Capital | 553,742 | 516,414 |
| Add: Unamortized PIC | 20 | 20 |
| Tier 2 Capital | 20 | 20 |
| TOTAL REGULATORY CAPITAL | $ 553,762 | $ 516,434 |

The following summarizes Corporate One's capital ratios as of June 30, 2024, and 2023 (dollar amounts in millions):

| | June 30, 2024 | June 30, 2023 |
|---|---|---|
| Retained earnings ratio | 5.98% | 5.38% |
| Leverage ratio* | 9.96% | 9.39% |
| Tier 1 risk-based capital ratio | 32.69% | 27.72% |
| Total risk-based capital ratio | 32.69% | 27.72% |
| MDANA^ | $ 5,567 | $ 5,500 |
| MDANRA^^ | $ 1,694 | $ 1,863 |

* 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 9.95% 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 June 30, 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 June 30, 2023, there were $31.5 million in cash flow hedges outstanding.

Fair Value Hedges: Twenty-three interest rate swaps with notional amounts totaling $556.2 million as of June 30, 2024, were designated as fair value hedges. Eighteen 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 June 30, 2023, there were $334.0 million fair value hedges outstanding.

The notional amount and fair value of the derivatives on a gross basis at June 30, 2024, and 2023, are as follows (in thousands):

| | June 30, 2024 | | June 30, 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 | $ 4,307 | $ 31,470 | $ 4,814 |
| Interest rate swaps – Fair value | 556,213 | 20,222 | 333,986 | 22,548 |
| Total included in other assets | $ 587,683 | $ 24,529 | $ 365,456 | $ 27,362 |

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 June 30, 2024, Corporate One held collateral from US Bank in the amounts of $31.83 million and $1.80 million related to fair value and cashflow hedges, respectively. As of June 30, 2023, Corporate One held collateral from US Bank in the amounts of $27.86 million and $2.62 million related to fair value and cashflow hedges, respectively.

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