Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

December 2017

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For further information, please contact:

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Dear Members,

Please find attached to this letter our unaudited financial statements and regulatory ratios for December 2017. Our December 2017 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx. We will provide our detailed Management's Discussion and Analysis, audited consolidated financial statements and footnotes in the 2017 Annual Report on our public website once our 2017 annual audit is complete.

We ended 2017 with net income of $13.1 million, an increase of $3.5 million over 2016. 2017 was another record year in terms of earnings. Earnings are extremely important to all corporate credit unions. The National Credit Union Administration (NCUA) re-regulated corporates in 2011 and issued rules in Part 704 that limit a corporate's ability to fully count, as regulatory capital, the perpetual contributed capital (PCC) from its members. The limitations on PCC included in Tier 1 capital began in October 2016. This limitation is both a function of retained earnings and Moving Daily Average Net Assets (MDANA). Then on November 22, 2017, the NCUA Board issued amendments to Part 704. Specifically, the amendments include a revision to the definition of retained earnings and Tier 1 capital and the addition of a definition for a retained earnings ratio. The effective date of these amendments was December 22, 2017. For us to fully utilize the $219.4 million in PCC our members invested in us and provide value to our members, it is important for us to build our retained earnings. A strong regulatory capital level is important for several reasons. First, this capital protects member shares and certificates. Second, our capital position results in Corporate One exceeding the capital requirements of the NCUA. Strong capital ratios are important for our members when they perform their due diligence of Corporate One. Additionally, we continue to add new members; and new members cite our strong capital position as one of their requirements when looking for a corporate. Third, we believe that one of the fundamental reasons corporates exist is to provide liquidity to their members when they need it. This important function can only be achieved if the corporate's balance sheet can support it. With the balance sheet being limited by the amount of capital a corporate maintains, one can see why capital is so essential when a corporate is a liquidity provider.

As of December 31, 2017, we had total regulatory capital of $294.8 million and a leverage ratio of 7.10 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704.

Corporate One maintains a strong liquidity position with a focus on ensuring liquidity is available to our members when they need it. As a result of our members' increasing loan-to-share ratios, our overall balance sheet has decreased year over year as we recognized a decrease in overnight shares. To ensure we maintain sufficient liquidity to help our members manage their liquidity position, we have structured our balance sheet to handle this type of share-balance fluctuation. Our strategy includes investing in highly liquid securities that can be sold. In fact, during 2017 the markets began pricing in the value of the securities we hold, and we are now in a net unrealized gain position on our available-for-sale securities. In addition, we recognized a net gain of $2.26 million on the sale of approximately $485.0 million worth of securities in 2017. The proceeds were used to fund the liquidity needs of our members. In addition, the securities we hold can be used as collateral at the FHLB, the Federal Reserve and other liquidity partners, resulting in access to approximately $1.70 billion in borrowing capacity.

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). PSCU, as the nation's largest CUSO, is well suited to handle the ever-growing complexities of credit and debit card programs. We made a business decision out of a recognition that, in order to appropriately support the credit unions on the program, these member credit unions needed to have direct access to the entire PSCU service and support team. It was a big decision to take a step back from being the front-line servicer of our PSCU cards solution, but we believe this move will truly benefit the members involved in a positive way and position them well for growth and success in their credit and debit card program. The asset purchase agreement resulted in a gain of approximately $2.1 million, which was recognized in April 2017.

As a result of strong performance and the gain on sales discussed above, we have added $11.61 million to our retained earnings over the last twelve months, which now exceeds $81.5 million, resulting in a retained earnings ratio of 2.28 percent. More details regarding these ratios can be found on page eight of this report.

If you have any questions about our financial condition, please feel free to contact me at mashley@corporateone.coop or 866/692-6771, ext. 9351.

Sincerely,

Melissa A. Ashley
Executive Vice President and Chief Financial Officer

Consolidated Balance Sheets (unaudited)

Assets		December 31, 2017		December 31, 2016
Cash and cash equivalents	$	1,074,272,832	$	718,149,685
Investments in financial institutions		43,134,000		32,241,700
Securities available for sale, at fair value		1,844,746,789		2,312,910,263
Loans		117,562,556		119,444,279
Accrued interest receivable		5,072,068		2,964,122
Goodwill		3,401,412		3,401,412
Intangible assets		9,241,302		11,695,802
Other assets		62,179,598		57,465,651
TOTAL ASSETS		3,159,610,557		3,258,272,914
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,534,923,916		2,767,117,506
Share certificates		257,573,868		171,949,782
Borrowed funds		50,000,000		22,000,000
Dividends and interest payable		201,347		63,059
Accounts payable and other liabilities		5,630,024		26,517,757
TOTAL LIABILITIES		2,848,329,155		2,987,648,104
Members' equity:				
Perpetual contributed capital		219,441,538		219,173,905
Retained earnings		81,598,817		69,988,474
Accumulated other comprehensive income (loss)		10,241,047		(18,537,569)
TOTAL MEMBERS' EQUITY		311,281,402		270,624,810
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	3,159,610,557	$	3,258,272,914

Consolidated Statements of Income (unaudited)

CORPORATE ONE FEDERAL CREDIT UNION
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended	
	December 31, 2017	**December 31, 2016**
Interest Income:		
Investments	$54,889,219	40,001,615
Loans	2,204,184	2,216,029
Total Interest Income	57,093,403	42,217,644
Dividend And Interest Expense:		
Shares	20,751,239	11,217,213
Borrowed funds and other	5,747,270	1,745,928
Total Dividend And Interest Expense	26,498,509	12,963,141
Net Interest Income	30,594,894	29,254,503
Net Settlement Income	13,335,622	13,862,959
Salaries and employee benefits	21,312,872	20,899,639
Amortization of intangibles expense	2,454,500	2,750,335
Office operations and occupancy expense	7,603,766	8,131,590
Other operating expenses	3,703,335	2,679,033
Total Operating Expenses	35,074,473	34,460,597
Net Gain on Financial Instruments:		
Total other-than-temporary impairment losses	(76,565)	(404,296)
Portion of loss recognized in other comprehensive income	7,895	233,591
Gain on sales of securities	2,261,144	1,169,386
Net Gain on Financial Instruments	2,192,474	998,681
Gain on sale of product line	2,072,329	0
Net Income	13,120,846	9,655,546

Consolidated Statements of Comprehensive Income (unaudited)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Net Income	$ 13,120,846	$ 9,655,546
Other comprehensive income :		
Change in net unrealized gain (loss) on available-for-sale securities	30,971,090	21,881,722
Reclassification adjustment recognized in earnings for other-than-temporary declines in values of securities	68,670	170,705
Reclassification adjustment recognized in earnings for net gain from sales of securities	(2,261,144)	(1,169,386)
Total other comprehensive income	28,778,616	20,883,041
Comprehensive Income	$ 41,899,462	$ 30,538,587

Consolidated Statement of Changes in Members' Equity for the Year Ended December 31, 2017 (unaudited)

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance At January 1, 2017	$ 219,173,905	$ 69,988,474	$ (18,537,569)	$ 270,624,810
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 PCC		(1,510,503)		(1,510,503)
Balance at December 31, 2017	$ 219,441,538	$ 81,598,817	$ 10,241,047	$ 311,281,402

Capital Ratios and NEV

In October 2011, the NCUA issued amendments to Part 704, the regulations governing the corporate credit unions. These amendments contained a multi-step, multi-year phase-in with certain definitions changing over time as various requirements are phased in. On November 22, 2017, the NCUA Board issued further amendments to Part 704. Specifically, the amendments revise provisions issued in 2011 on retained earnings and Tier 1 capital. The 2017 amendments include a revision to the definition of retained earnings and Tier 1 capital and the addition of a definition for a retained earnings ratio. 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 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 federally-insured PCC exceeding retained earnings by 200 basis points. Prior to these amendments all PCC issued by a corporate was limited. The change to limit only federally-insured PCC increases our leverage ratio 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.

	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%
NEV ratio	Fair Value of Assets less Fair Value of Liabilities	Fair Value of Assets	2.00%	2.00%

*Moving Daily Average Net Assets (NCUA allows for the deductions used in Tier 1 capital to be deducted from MDANA)
**Moving Daily Average Net Risk Weighted Assets
***As defined by the NCUA Rules and Regulations §704.2

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

	December 31, 2017
Retained earnings ratio	2.28%
Leverage ratio*	7.10%
Tier 1 risk-based capital ratio*	27.70%
Total risk-based capital ratio	32.48%
NEV ratio	9.85%

* NCUA allows for the deductions used in Tier 1 capital to be deducted from MDANA, some of which differ from the 5310 calculation.

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