Corporate One

FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

April 2018

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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 April 2018. Our April 2018 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx.

For the four months ended April 30, 2018, net income was $4.1 million, resulting in a retained earnings balance at April 30, 2018, of $85.0 million, an increase of $9.8 million since April 30, 2017. The ability to maintain sustained strong earnings is extremely important to all corporate credit unions. Retained earnings are a major component of regulatory capital, and as of April 30, 2018, we had total regulatory capital of $299.3 million, which also includes $220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 7.46 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704.

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. Corporate One believes that one of the fundamental reasons that corporates exist is to provide liquidity to their members when they need it. We maintain a strong liquidity position with a focus on ensuring liquidity is available to our members. 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. We continue to see spreads tighten on the securities we own, resulting in higher fair values than in prior years. Accordingly, our available-for-sale securities portfolio is in an unrealized gain position. In addition, we recognized a gain of $622,700 on the sale of approximately $15.4 million worth of securities in the first four months of 2018. 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 $1.83 billion in borrowing capacity.

Once again, thanks to the ongoing support of our members, Corporate One continues to perform well financially while providing essential liquidity options and settlement solutions and services to our members/owners. 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		**April 30, 2018**		**April 30, 2017**
Cash and cash equivalents	$	786,401,357	$	1,276,928,579
Investments in financial institutions		43,134,000		30,534,700
Securities available for sale, at fair value		2,126,504,508		2,138,480,068
Loans		72,594,766		109,384,040
Accrued interest receivable		5,416,102		2,974,980
Goodwill		3,401,412		3,401,412
Intangible assets		8,434,343		10,888,843
Other assets		62,947,080		60,382,843
TOTAL ASSETS		3,108,833,568		3,632,975,465
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,382,245,195		2,876,363,348
Share certificates		384,673,636		429,878,390
Borrowed funds				29,000,000
Dividends and interest payable		470,955		228,371
Accounts payable and other liabilities		20,283,783		8,106,135
TOTAL LIABILITIES		2,787,673,569		3,343,576,244
Members' equity:				
Perpetual contributed capital		220,349,122		219,173,905
Retained earnings		84,970,663		75,164,401
Accumulated other comprehensive income (loss)		15,840,214		(4,939,085)
TOTAL MEMBERS' EQUITY		321,159,999		289,399,221
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	3,108,833,568	$	3,632,975,465

Consolidated Statements of Income (unaudited)

	Four Months Ended April 30, 2018	Four Months Ended April 30, 2017
Interest Income:		
Investments	$ 22,374,827	$ 16,105,822
Loans	550,873	652,063
Total Interest Income	22,925,700	16,757,885
Dividend And Interest Expense:		
Shares	10,694,699	5,674,093
Borrowed funds and other	1,141,491	780,381
Total Dividend And Interest Expense	11,836,190	6,454,474
Net Interest Income	11,089,510	10,303,411
Net Settlement Income	4,301,626	4,303,019
Salaries and employee benefits	7,447,641	7,084,990
Amortization of intangibles expense	806,959	806,959
Office operations and occupancy expense	2,370,978	2,832,602
Other operating expenses	1,247,273	856,456
Total Operating Expenses	11,872,851	11,581,007
Net Gain on Financial Instruments:		
Gain on sales of securities	622,720	465,752
Net Gain on Financial Instruments	622,720	465,752
Gain on sale of product line		2,072,329
Net Income	$ 4,141,005	$ 5,563,504

Consolidated Statements of Comprehensive Income (unaudited)

	Four Months Ended April 30, 2018		Four Months Ended April 30, 2017
Net Income	$	4,141,005	$	5,563,504
Other comprehensive income :				
Change in net unrealized gain on available-for-sale securities		6,221,887		14,064,236
Reclassification adjustment recognized in earnings for net gain from sales of securities		(622,720)		(465,752)
Total other comprehensive income		5,599,167		13,598,484
Comprehensive Income	$	9,740,172	$	19,161,988

Consolidated Statement of Changes in Members’ Equity for the Four Months Ended April 30, 2018
(unaudited)

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance At January 1, 2018	$ 219,441,538	$ 81,598,817	$ 10,241,047	$ 311,281,402
Net income		4,141,005		4,141,005
Other comprehensive income			5,599,167	5,599,167
Issuance of PCC	907,584			907,584
Dividends on PCC		(769,159)		(769,159)
Balance at April 30, 2018	$ 220,349,122	$ 84,970,663	$ 15,840,214	$ 321,159,999

Capital Ratios and NEV

On October 20, 2010, the NCUA published the final revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, in the Federal Register. The revisions establish a new capital framework including risk-based capital requirements. The old capital instruments, PIC and MCS, will be phased out and two new capital instruments are established. The new capital instruments are Perpetual Contributed Capital (PCC) and Non-perpetual Capital Accounts (NCA). PCC is defined in Part 704.2 as accounts or other interests of a corporate credit union that: are perpetual, non-cumulative dividend accounts; are available to cover losses that exceed retained earnings, PIC and MCS; are not insured by the NCUSIF or other share or deposit insurers; and cannot be pledged against borrowings. NCA is defined in Part 704.2 as funds contributed by members or nonmembers that: are term certificates with an original minimum term of five years or that have an indefinite term with a minimum withdrawal notice of five years; are available to cover losses that exceed retained earnings, PIC, MCS and PCC; are not insured by the NCUSIF or other share or deposit insurers; and cannot be pledged against borrowings.

These requirements contain a multi-step, multi-year phase-in with certain definitions changing over time as various requirements are phased in. 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. Beginning in October 2016, the amount of Perpetual Contributed Capital (PCC) included in Tier 1 Capital was limited. This limitation is both a function of retained earnings and Moving Daily Average Net Assets (MDANA). Under the 2010 changes, the amount of PCC included in Tier 1 Capital was to be further limited to the amount of retained earnings a corporate holds beginning in 2020.

On November 22, 2017, the NCUA issued further 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.

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 PCC from federally-insured credit unions exceeding retained earnings by 200 basis points. Prior to these amendments all PCC issued by a corporate was limited. The change to limit only PCC from federally-insured credit unions increases our leverage and Tier 1 risk-based capital ratios as of the effective date of the amendment.

The following table presents the ratios, definitions of the numerators and denominators for each of the ratios and the required minimum levels for well capitalized and adequately capitalized designations under the regulation. The definitions of the numerators are simplifications, as the regulation contains certain adjustments to each capital calculation.

	Numerator	Denominator	Well capitalized	Adequately capitalized
Leverage ratio	Tier 1 Capital***	MDANA*	5.00%	4.00%
Tier 1 risk-based capital ratio	Tier 1 Capital***	MDANRA**	6.00%	4.00%
Total risk-based capital ratio	Total Capital***	MDANRA**	10.00%	8.00%
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 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 summarizes Corporate One's capital and NEV ratios as of April 30, 2018.

	April 30, 2018
Retained earnings ratio	2.44%
Leverage ratio*	7.46%
Tier 1 risk-based capital ratio	29.70%
Total risk-based capital ratio	34.70%
NEV ratio	10.33%

* 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 7.44% leverage ratio.

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