Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

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

For the five months ended May 31, 2018, net income was $5.7 million, resulting in a retained earnings balance at May 31, 2018, of $86.3 million, an increase of $11.0 million since May 31, 2017. While net income for the first five months of 2018 was slightly lower than the same period of 2017, this is due solely to the $2.1 million gain on sale of certain debit and credit card contracts in 2017. Our 2018 robust performance is the result of strong net interest income and controlled costs. We have structured our balance sheet with 97 percent of our investable assets based on floating rate indices, and when rates rise, we recognize higher earnings on those assets. As a result of the current rising rate environment, we are recognizing an almost 10 percent increase in net interest income over the same period of the previous year, all while paying almost twice as much in dividends to our members during the first five months of the year. In addition to increased net interest income, we have been able to hold our operating expenses to levels near those of 2017. We have been able to balance the costs of investing in technology to help our members against the savings we realize through increased internal efficiencies. Our ability to continually sustain strong earnings results in a steady growth in our retained earnings. Retained earnings are a major component of regulatory capital, and as of May 31, 2018, we had total regulatory capital of $300.7 million, which also includes $220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 7.56 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704.

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 $985,800 on the sale of approximately $82.8 million worth of securities in the first five 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 $1.82 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		May 31, 2018		May 31, 2017
Cash and cash equivalents	$	596,522,196	$	584,246,870
Investments in financial institutions		43,134,000		30,534,700
Securities available for sale, at fair value		2,032,345,339		2,118,957,611
Loans		80,765,722		123,196,685
Accrued interest receivable		6,583,000		4,105,148
Goodwill		3,401,412		3,401,412
Intangible assets		8,225,879		10,680,379
Other assets		57,212,263		63,276,914
TOTAL ASSETS		2,828,189,811		2,938,399,719
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,086,747,161		2,350,913,969
Share certificates		414,095,048		254,055,920
Borrowed funds				36,000,000
Dividends and interest payable		761,900		337,364
Accounts payable and other liabilities		6,703,076		5,873,961
TOTAL LIABILITIES		2,508,307,185		2,647,181,214
Members' equity:				
Perpetual contributed capital		220,349,122		219,173,905
Retained earnings		86,320,455		75,297,907
Accumulated other comprehensive income (loss)		13,213,049		(3,253,307)
TOTAL MEMBERS' EQUITY		319,882,626		291,218,505
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	2,828,189,811	$	2,938,399,719

Consolidated Statements of Income (unaudited)

	Five Months Ended	
	May 31, 2018	May 31, 2017
Interest Income:		
Investments	$28,454,246	20,193,742
Loans	704,118	821,185
Total Interest Income	29,158,364	21,014,927
Dividend And Interest Expense:		
Shares	13,720,681	7,362,053
Borrowed funds and other	1,163,741	806,761
Total Dividend And Interest Expense	14,884,422	8,168,814
Net Interest Income	14,273,942	12,846,113
Net Settlement Income	5,505,274	5,424,623
Salaries and employee benefits	9,335,079	8,971,620
Amortization of intangibles expense	1,015,423	1,015,423
Office operations and occupancy expense	2,956,702	3,778,864
Other operating expenses	1,732,903	1,222,912
Total Operating Expenses	15,040,107	14,988,819
Net Gain on Financial Instruments:		
Gain on sales of securities	985,783	463,844
Net Gain on Financial Instruments	985,783	463,844
Gain on sale of product line		2,072,329
Net Income	5,724,892	5,818,090

Consolidated Statements of Comprehensive Income (unaudited)

	Five Months Ended	
	May 31, 2018	May 31, 2017
Net Income	$ 5,724,892	$ 5,818,090
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	3,957,785	15,748,106
Reclassification adjustment recognized in earnings for net gain from sales of securities	(985,783)	(463,844)
Total other comprehensive income	2,972,002	15,284,262
Comprehensive Income	$ 8,696,894	$ 21,102,352

Consolidated Statement of Changes in Members' Equity for the Five Months Ended May 31, 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		5,724,892		5,724,892
Other comprehensive income			2,972,002	2,972,002
Issuance of PCC	907,584			907,584
Dividends on PCC		(1,003,254)		(1,003,254)
Balance at May 31, 2018	$ 220,349,122	$ 86,320,455	$ 13,213,049	$ 319,882,626

Capital Ratios and NEV

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. Periodic updates are made to this Rule, and as of December 22, 2017, certain amendments became effective, such as the definitions of retained earnings and Tier 1 capital, as well as the addition of a new definition for a retained earnings ratio.

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 the amount of Perpetual Contributed Capital (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 May 31, 2018.

	May 31, 2018
Retained earnings ratio	2.49%
Leverage ratio*	7.56%
Tier 1 risk-based capital ratio	29.96%
Total risk-based capital ratio	34.82%
NEV ratio	11.26%

* 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 7.54% leverage ratio.

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