



Where Credit Unions Belong

Unaudited Financial Statements

and Supplemental Financial Information

March 2012

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

This section of Corporate One Federal Credit Union's (Corporate One) financial report should be read in conjunction with the Management's Discussion and Analysis and Financial Condition and Results of Operations in the 2011 Annual Report. These financials can be found on Corporate One's public Web site.

Results of Operations

Income created by Corporate One's focus on diversified investing, fee income from a strong suite of brokerage and correspondent services and conscientious spending has increased Reserves and Undivided Earnings (RUDE) to \$38.6 million at March 31, 2012. This is the cushion that protects our members' capital investments in Corporate One. Throughout this financial crisis we have maintained sufficient RUDE so that our members have not lost any of their capital investments. In other words, our members' capital investments remain 100 percent intact.

A summary of Corporate One's results of operations, and return on average assets (ROA) for the three months ended March 31, 2012 and 2011, as well as our progress toward our board-approved 2012 budget is included in the following table (in thousands).

	Three months ended		
	March 31, 2012 Actual	March 31, 2012 Budget	March 31, 2011 Actual
Net interest income	\$ 3,694	\$ 3,211	\$ 3,942
Net settlement income	2,660	2,766	2,575
Operating expenses	(4,409)	(4,576)	(4,168)
Other gain (loss)	35		(527)
Net income	\$ 1,980	\$ 1,401	\$ 1,822
DANA for the three months ended	\$ 3,437,247		\$ 3,026,357
ROA year to date	0.23%		0.24%

Our earnings for the three months ended March 31, 2012, were \$1.98 million. This exceeds our budget by \$579,000. Net interest income was approximately \$483,000 more than budget for the three months ended March 31, 2012. The positive budget variance is partially the result of improved cash flows on bonds previously determined to be other-than-temporarily impaired. In March, two bonds which had previously been determined to be other-than-temporarily impaired matured without incurring any principal losses. This improvement in cash flows resulted in an increase to net interest income of approximately \$238,000. In addition, average balances were greater than expected during the first three months, which contributed to the positive variance. Net settlement income was approximately \$106,000 less than the amount budgeted for the three months ended March 31, 2012. This is primarily attributable to less than expected brokerage income. Operating expenses were approximately \$167,000 under budget for the three months ended March 31, 2012. The positive budget variance is primarily related to an open position and the variability of certain actual monthly expenses, such as marketing, repairs and maintenance and staff travel expenses.

Capital Position

Throughout 2011, we worked with our existing members to recommit their existing capital instruments by converting them to the new qualifying capital instrument, Perpetual Contributed Capital (PCC). We also raised PCC from new members. Additionally, we asked our members to invest in Non-perpetual Capital Accounts (NCA). In addition to counting toward certain capital ratios, this new capital increased our Net Economic Value (NEV) to a level that allows us to achieve the minimum regulatory NEV ratio of 2.0 percent. These efforts resulted in total regulatory capital of \$288.5 million at March 31, 2012.

This capital is important because on December 31, 2012, the Temporary Corporate Credit Union Share Guarantee Program (TCCUSGP) will expire. This program was designed to provide stability to the credit union system during the financial crisis by guaranteeing all shares held at corporate credit unions. The National Credit Union Administration (NCUA) no longer believes that this program is necessary and has not extended it past 2012. Our members' shares and certificates are protected by our \$288.5 million of regulatory capital. The table (in thousands) below outlines the components of capital and the order of priority.

	March 31, 2012	March 31, 2011
RUDE	\$ 38,636	\$ 37,175
PIC	20	25,332
MCS	22,222	126,805
PCC	144,882	
NCA	82,700	
Total regulatory capital	\$ 288,460	\$ 189,312

Regulatory capital includes RUDE of \$38.6 million, PCC of \$144.9 million, NCA of \$82.7 million and the old regulatory capital, membership capital shares (MCS) of \$22.2 million and paid-in capital (PIC) of \$20,000. Our total regulatory capital of \$288.5 million increased approximately \$99.1 million, or 52 percent since March 31, 2011. This change in overall capital is primarily due to the results of our member capital re-commitment offering discussed above. The response was overwhelming as the capital offering was even over-subscribed. We now hold more than a quarter of a billion dollars in total regulatory capital.

The following summarizes Corporate One's capital ratios as of March 31, 2012, under the new regulation that became effective in October 2011:

	March 31, 2012	Well Capitalized	Adequately Capitalized
RUDE ratio	1.20%	0.45%	0.45%
Interim leverage ratio	7.92%	5.00% [^] /7.00% ^{^^}	4.00%
Tier 1 risk-based capital ratio	14.61%	6.00%	4.00%
Total risk-based capital ratio	20.72%	10.00%	8.00%

[^] Base Plus Expanded Authority Requirement. Under Base Plus, a 20% maximum decline in the Net Economic Value in the stress test required per Reg 704 is permissible.

^{^^} Part I Expanded Authority. Under Part I, a 28% maximum decline in the Net Economic Value in the stress test required per Reg 704 is permissible.

See Footnote 7 for more information regarding the capital requirements of the new 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 assigned by Nationally Recognized Statistical Rating Organizations (NRSROs), or issued by agencies of the U.S. government, or by other regulated depository institutions. Corporate One's portfolio diversification as of March 31, 2012, is shown in the following table by rating.

The following table represents Corporate One's portfolio diversification as of March 31, 2012 (in thousands).

	Agency	AAA	AA	A	Below A-	U.S. Central Term Deposits	Other	Cash and Cash Equivalents	Total	Net Unrealized Gain(Loss)	Total
U.S. Central *						\$ 4,158		\$ 138,432	\$ 142,590		\$ 142,590
Deposits with other financial institutions								2,427,540	2,427,540		2,427,540
Loans to members							\$ 921		921		921
Federal Home Loan Bank-Cincinnati							15,702		15,702		15,702
Certificates of deposit							23,899		23,899		23,899
Mortgage-related securities	\$ 57,829	\$ 3,550	\$ 8,261	\$ 12,667	\$244,825				327,132	\$ (72,355)	254,777
Government-sponsored enterprises	77,452								77,452	271	77,723
Asset-backed securities:											
Student loans		20,674	187,139	115,841	231,800				555,454	(87,780)	467,674
Credit cards		253,718		58,188					311,906	2,743	314,649
Auto		214,552	9,340						223,892	230	224,122
Corporate debt			84,828	34,930	15,000				134,758	(1,563)	133,195
Total Book Value	135,281	492,494	289,568	221,626	491,625	4,158	40,522	2,565,972	4,241,246	\$(158,454)	\$ 4,082,792
Net Unrealized gain(losses)	386	644	(17,056)	(16,735)	(125,693)				(158,454)		
Total	\$135,667	\$ 493,138	\$ 272,512	\$204,891	\$365,932	\$ 4,158	\$ 40,522	\$ 2,565,972	\$4,082,792		

*Amounts held at U.S. Central are 100 percent guaranteed by the NCUA through December 31, 2012.

** Securities are classified by the lowest available credit grade.

As evidenced on the previous table, our portfolio remains well diversified. Eighty-seven percent of the book value of our portfolio is in cash and cash equivalents, agencies, securities rated "A" or higher and U.S. Central term deposits. Corporate One does not have any investments in structured investment vehicles (SIVs), collateralized debt obligations (CDOs) or commercial mortgage-backed securities.

Corporate One's mortgage-related securities have a book value of approximately \$327.1 million at March 31, 2012, which represents only eight percent of the book value of our total investable portfolio. Of Corporate One's mortgage-related securities, 19 percent of these securities are issued by agencies of the U.S. government or are rated AAA by at least one rating agency. The book values of our subprime mortgages comprise only 1.2 percent of the book value of our total investable portfolio. For the three months ended March 31, 2012, we received principal repayments on our mortgage-related securities of \$17.8 million, of which \$12.8 million related to non-agency mortgages.

The following table details the book value of Corporate One's investment in residential mortgage-backed and home-equity asset-backed securities as of March 31, 2012 (in thousands).

Mortgage Related Securities	Agency	AAA	AA	A	Below A-	Total
Prime collateral					\$ 156	\$ 156
Near-prime collateral*			\$ 930	\$ 5,147	103,280	109,357
Sub-prime collateral**		\$ 3,550	5,700	5,840	59,343	74,433
Agency Insured	\$ 57,829		1,631	1,680	82,046	85,357
Book value of total mortgage related securities	57,829	3,550	8,261	12,667	244,825	327,132
Net unrealized gain(losses)	115	(639)	(542)	(1,800)	(69,489)	(72,355)
Fair value of total mortgage related securities	\$ 57,944	\$ 2,911	\$ 7,719	\$ 10,867	\$ 175,336	\$ 254,777

*Based on the definition used in offering circulars

**Based on 660 or lower FICO Score

*** Securities are classified by the lowest available credit grade.

A portion of Corporate One's securities have insurance coverage to further support the senior classes in the event of deteriorating collateral performance. The insurance coverage provided by the monoline insurers increases the existing credit enhancement provided to the senior class owned by Corporate One. The monoline insurance companies that insure Corporate One bonds are: Syncora Guarantee Inc. (SGI), Financial Guaranty Insurance Company (FGIC), Assured Guaranteed Municipal (AGM), MBIA, Inc. (MBIA) and Ambac Assurance Corporation (AAC). SGI and FGIC stopped paying claims in April 2009 and November 2009, respectively. As a result, Corporate One has recorded OTTI charges on all securities which were dependent upon SGI and FGIC for the payment of future principal and interest claims. Beginning in July 2010, SGI resumed the payment of claims. However, accounting rules do not allow for immediate reversals of prior OTTI taken. Corporate One has placed reliance on AGM and MBIA. These insurers are currently paying principal and interest claims timely and management believes they will continue to pay future claims. However, deterioration of these monoline insurers could result in additional OTTI charges.

Corporate One has 15 bonds that are insured by AAC, a subsidiary company of Ambac Financial Group, Inc. One of the bonds is a student loan asset-backed security and the remaining 14 bonds

are mortgage-backed securities. The underlying borrowers are making principal and interest payments, so we only require support from AAC to cover shortfalls. We receive an analysis from a third party consultant on a monthly basis to help us quantify our expected losses on these bonds.

Due to the economic downturn that began in 2007, claims made against AAC for principal shortfalls on insured bonds escalated to a point where its ability to pay on such claims was in question. On March 24, 2010, the Ambac Financial Group, Inc.'s Board of Directors voted to create a segregated account and consented to rehabilitation of that account by the Wisconsin Office of the Commissioner of Insurance (OCI), AAC's primary regulator. Under Wisconsin law, the segregated account is treated as a separate insurer from AAC. All of Corporate One's AAC-insured bonds have been allocated to the segregated account by OCI. OCI has implemented a temporary moratorium on claims payments to segregated account policyholders to provide a measured transition into rehabilitation and to conserve claims-paying resources while the plan of rehabilitation is finalized. Through this plan, the segregated account policies should receive a combination of cash and interest-bearing surplus notes in consideration for claims made.

On October 8, 2010, OCI, as the rehabilitator of the segregated account, filed the final plan of rehabilitation of the segregated account. While the overall aspects of this final plan were largely consistent with the one filed in March 2010, the final plan included detailed financial projections that provide a range of potential outcomes for policyholders. The plan calls for 25 percent of claims to be paid in cash and 75 percent in surplus notes. The detailed financial projections show recoveries on the surplus notes ranging from 100 percent in the best scenario to 45 percent in the most stressful scenario. Therefore, according to OCI's estimates, even in the most stressful scenario the ultimate recovery on policy claims would be 58.75 percent (the result of 100 percent recovery on the 25 percent paid in cash and 45 percent recovery on the 75 percent paid in surplus notes). OCI has made available a copy of the plan and other valuable information regarding the segregated account at <http://www.Ambacpolicyholders.com>. On January 24, 2011, the OCI's motion for confirmation of the final rehabilitation plan was granted and the plan was confirmed by State of Wisconsin's Circuit Court for Dane County (the Court).

While the rehabilitation plan for the segregated account was approved, no payments or surplus notes have been issued to the segregated account policyholders. During 2011, the rehabilitator for the segregated account disclosed that amendments to or modifications of the rehabilitation plan are possible, however, no specific timeline or deadline were given.

We continue to believe ultimate recovery on policy claims to be between 100 percent and 58.75 percent as originally presented in the final rehabilitation plan. However, recent financial statements of AAC and the segregated account lead us to believe that our recovery may be lower than our originally projected 75 percent. Therefore, we adjusted our reliance from 75 percent to 67 percent beginning in December 2011. Through March 31, 2012, we have recorded \$1.9 million in OTTI charges on AAC-insured bonds. We are currently placing reliance on AAC to cover \$3.8 million of expected principal shortfalls on our AAC-insured bonds. Should the rehabilitator make amendments to the plan of rehabilitation that have an adverse effect on the segregated account or if there is further deterioration of AAC or the underlying insured securities, it could result in additional OTTI charges.

The following table (in thousands) details our mortgage and non-mortgage securities by monoline insurer at March 31, 2012:

Monoline Insurer	Amortized Cost	Fair Value	Net Unrealized		Insurer Rating	
				Losses	S&P	Moody's
FGIC	\$ 33,733	\$ 27,293	\$	(6,440)	NR	WR
MBIA	32,420	25,638		(6,782)	B	B3
AAC	26,399	18,331		(8,068)	NR	WR
SGI	6,081	3,936		(2,145)	NR	Ca
AGM	1,631	1,602		(29)	AA-	A1
Total	\$ 100,264	\$ 76,800	\$	(23,464)		

The new NCUA Rules and Regulations Part 704 contain new investment prohibitions and other credit and asset liability management requirements. These new requirements became effective January 18, 2011. NCUA recognized that some corporates may hold investments that are in violation of one or more of these new prohibitions and have directed such corporates to follow the investment action plan provisions of NCUA Rules and Regulations Part 704.10. Corporate One holds securities that do not meet certain requirements of the new regulation. During this time of transition to the new investment prohibitions, Corporate One is adhering to Part 704.10 and has filed the required Investment Action Plans (IAP) with the NCUA. On March 22, 2012, we received the annual written approval from the NCUA regarding our IAP with respect to these securities.

For securities where we believe not all principal and interest will be received, OTTI charges were recorded. The charges, which represent the estimated credit losses, are determined by calculating the difference between the discounted cashflows of the securities and their current amortized cost. Since 2008, we have recorded total OTTI, or expected credit losses, of \$61.8 million. To date, we have had total cumulative principal shortfalls of approximately \$18.7 million. We have also had cumulative recoveries to date of approximately \$800,000 due to sales and/or improved cashflows.

Market/Spread Risk

Spread risk is caused by declines in fair values of securities as a result of widening credit spreads. Credit concerns in mortgages have turned to concerns about liquidity, causing all credit-related securities to experience deterioration in spreads and, hence, in fair values. Approximately 46 percent of Corporate One's mark-to-market adjustment in its available-for-sale portfolio is related to mortgages. However, the remaining amount of our unrealized losses is related to asset classes outside of the mortgage sector, primarily student loan asset-backed securities. Every student loan position we hold is graded an A or better by at least one NRSRO. We hold FFELP-backed student loan securities as well as private-issue student loan securities. We believe the unrealized losses in this sector are related to illiquidity in the student loan market, not the creditworthiness of the securities we hold. For both our student loan asset-backed and our mortgage-related securities, we expect the fair value to recover as the securities approach their maturity or as liquidity returns to this market.

The following table summarizes our net unrealized gains (losses) by asset class.

Type	Net unrealized gains (losses)	
	March 31 2012	March 31, 2011
Student loans	\$ (87,780)	\$ (76,853)
Mortgage-related	(72,355)	(77,692)
Corporate debt	(1,563)	(238)
Auto	230	427
Government-sponsored enterprises	271	420
Credit cards	2,743	3,006
Net unrealized losses on securities	\$ (158,454)	\$ (150,930)

Overall, we anticipate that actual credit losses from the securities will be manageable from a capital perspective. The fair value is expected to recover as the securities approach maturity or as market volatility stabilizes.

Interest Rate Risk Management

Our primary interest-rate-risk measurement tool is an NEV test. NEV is defined as the fair value of assets less the fair value of liabilities and members' accounts. 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 basis points (bps).

As the credit crisis that began in 2007 became a liquidity crisis, the fair values of many of our securities have experienced declines, which put significant downward pressure on our NEV and NEV ratio. Because the NEV incorporates unrealized losses on our available-for-sale securities that are due to uncertainty regarding liquidity and credit, it is losing some of its value as a tool to measure interest rate risk. Currently, the NEV and NEV ratio are more reflective of market/spread risk. Throughout this time, the fundamentals of how we manage interest rate risk have not changed.

In addition to counting toward certain capital ratios, the new capital raised, as discussed in the section titled *Capital Position*, increased our NEV to a level that allowed us to surpass the minimum regulatory NEV ratio of 2.0 percent. Accordingly, we exceed the required NEV ratio in both the base case scenario as well as the 300 bps stress scenario.

A summary of Corporate One's NEV calculation as of March 31, 2012 and 2011, is shown below (dollar amounts in thousands).

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base
As of March 31, 2012			
300 bps rise in rates	\$ 81,958	2.00%	\$ (16,993)
Base scenario	\$ 98,951	2.41%	
As of March 31, 2011			
300 bps rise in rates	\$ 6,597	0.21%	\$ (20,342)
Base scenario	\$ 26,939	0.86%	

*300, 200 and 100 bps decline did not apply in the interest rate environment present on March 31, 2012 and 2011.

Liquidity Risk Management

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. In fact, at the end of March 2012, we had approximately \$2.57 billion in cash and cash equivalents. This is significant given our total balance sheet of \$4.10 billion. In addition, we strive to buy securities with readily determined market values that can be sold or borrowed against to generate liquidity. We also generally match our members' term certificates against assets with similar cashflows and maturities. As a result, when a term certificate matures, there is also an asset maturing at about the same time, producing the necessary liquidity to meet our members' needs. We are able to do this because members have historically held term certificates to maturity.

We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union can deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of March 31, 2012, our single largest depositor represented only 6 percent of our total member shares.

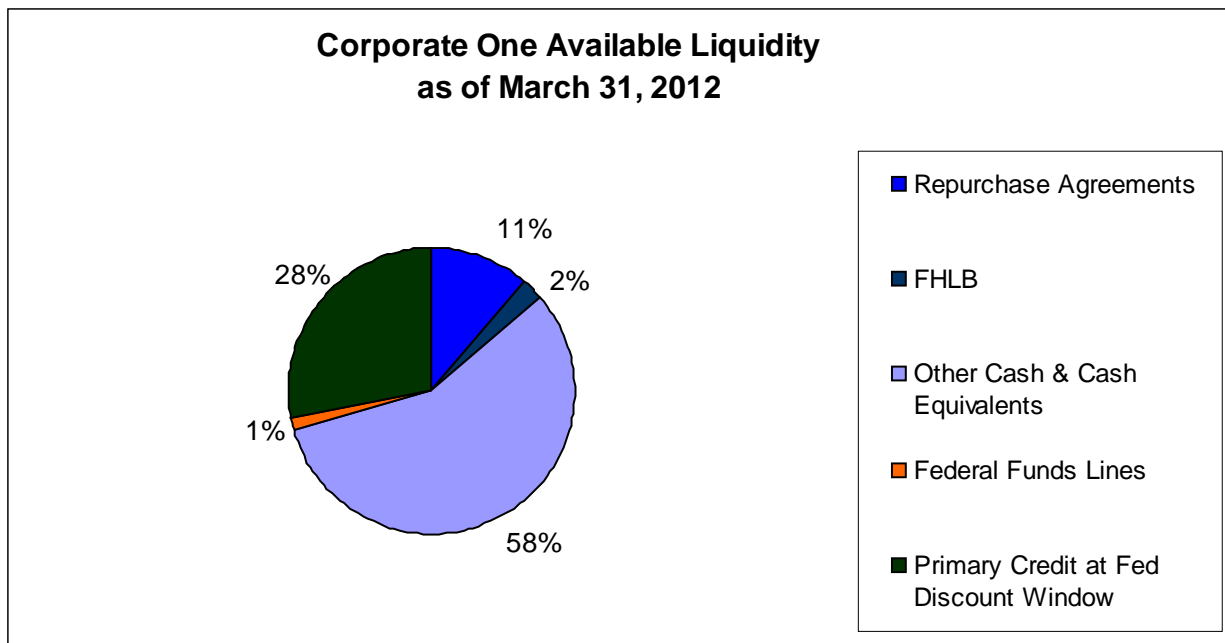
Corporate One is participating in the TCCUSGP of the NCUA. Through this program, the NCUA guarantees all shares (excluding PCC, NCA, PIC, MCS and other shares related to NCUA liquidity programs) through December 31, 2012.

Should we need to borrow to generate liquidity, we have diversified sources of funds and we test these sources often to ensure availability. Corporate One's remaining borrowing capacity (total existing lines less borrowings outstanding) at March 31, 2012, was approximately \$789.6 million. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately \$127.9 million. This line of credit is secured by certain investments held in safekeeping at the FHLB. Corporate One's remaining borrowing capacity at the FHLB was approximately \$107.9 million at March 31, 2012. In addition, we maintain a reverse repurchase agreement with another party totaling \$500.0 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 \$55.0 million of federal funds lines with various financial institutions. The federal funds lines do not require collateral for overnight borrowing.

To further strengthen our liquidity position, we elected to voluntarily hold Reg. D reserves in order to gain access to the Federal Reserve discount window. Previously, as a bankers' bank, we were unable to access the Federal Reserve discount window. By changing our status with the Federal Reserve Bank, we have the potential to access the ultimate backstop for liquidity.

During August 2011, we were 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 \$126.7 million at March 31, 2012.

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, committed lines and letter of credit commitments to members of approximately \$1.45 billion at March 31, 2012. 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.

Balance Sheets (unaudited)

	March 31, 2012	March 31, 2011
Assets		
Cash and cash equivalents	\$ 2,565,971,605	\$ 1,345,589,035
Investments in financial institutions	43,759,300	260,780,500
Available-for-sale securities, at fair value	1,469,771,299	1,516,041,978
Held-to-maturity securities	2,369,572	2,369,572
Loans to members	920,647	3,361,917
Accrued interest receivable	2,192,818	2,543,704
Other assets	18,156,544	17,181,511
TOTAL ASSETS	4,103,141,785	3,147,868,217
Liabilities and Members' Equity (Deficit)		
Liabilities:		
Settlement and regular shares	3,531,981,916	2,645,516,631
Share certificates	416,071,927	429,585,975
Member capital shares	22,222,205	126,805,208
Non-perpetual capital accounts	82,700,000	
Borrowed funds	20,000,000	30,000,000
Dividends and interest payable	2,160,717	1,964,502
Accounts payable and other liabilities	2,920,531	2,419,147
TOTAL LIABILITIES	4,078,057,296	3,236,291,463
Members' equity (deficit):		
Paid-in capital	20,000	25,331,996
Perpetual contributed capital	144,882,480	
Reserves and undivided earnings	38,636,072	37,175,016
Accumulated other comprehensive loss	(158,454,063)	(150,930,258)
TOTAL MEMBERS' EQUITY (DEFICIT)	25,084,489	(88,423,246)
TOTAL LIABILITIES AND MEMBERS' EQUITY (DEFICIT)	\$ 4,103,141,785	\$ 3,147,868,217

See accompanying notes to financial statements.

Statements of Operations

(unaudited)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Interest Income:		
Investments and securities	\$ 6,779,243	\$ 7,725,963
Loans	10,030	22,819
Total Interest Income	6,789,273	7,748,782
Dividend And Interest Expense:		
Shares	2,894,985	3,437,272
Borrowed Funds and other	200,188	369,255
Total Dividend And Interest Expense	3,095,173	3,806,527
Net Interest Income	3,694,100	3,942,255
Total Settlement Income	4,419,259	4,147,824
Total Settlement Expense	1,759,409	1,573,273
Net Settlement Income	2,659,850	2,574,551
Salaries and employee benefits	2,694,968	2,550,240
Office operations and occupancy expense	1,546,150	1,412,157
Other operating expenses	168,081	205,702
Total Operating Expenses	4,409,199	4,168,099
Net gain (loss) on financial instruments:		
Total other-than-temporary impairment losses		(3,637,648)
Portion of loss recognized in other comprehensive income		3,111,056
Gain on sales of securities	35,247	
Net Gain (Loss) on Financial Instruments	35,247	(526,592)
Net Income	\$ 1,979,998	\$ 1,822,115

See accompanying notes to financial statements.

Statement of Changes in Members' Equity For the Period Ended March 31, 2012 (unaudited)

	Paid-In Capital	Perpetual Contributed Capital	Reserves and Undivided Earnings	Accumulated Other Comprehensive Loss	Total Members' Equity
Balance at January 1, 2012	\$ 20,000	\$141,917,275	\$36,780,976	\$ (169,674,803)	\$ 9,043,448
Comprehensive income:					
Net income			1,979,998		1,979,998
Other comprehensive income -					
Change in net unrealized loss on available-for-sale securities				11,255,987	11,255,987
Reclassification adjustment for realized gain from sales of securities				(35,247)	(35,247)
Comprehensive income					13,200,738
Conversion of MCS to PCC		900,000			900,000
Issuance of PCC		2,065,205			2,065,205
Dividends on PCC			(124,902)		(124,902)
Balance at March 31, 2012	<u>\$ 20,000</u>	<u>\$144,882,480</u>	<u>\$38,636,072</u>	<u>\$ (158,454,063)</u>	<u>\$ 25,084,489</u>

See accompanying notes to financial statements.

Notes to Financial Statements

1. Cash and Cash Equivalents

Cash and cash equivalents include cash, amounts due from depository institutions, overnight amounts at U.S. Central and federal funds sold. Corporate One is required to maintain cash or deposits with the Federal Reserve Bank. At March 31, 2012 and 2011, cash held prior to month-end was sufficient, therefore no reserve was required.

Cash and cash equivalents at March 31, 2012 and 2011, are summarized as follows (in thousands):

	Cash and Cash Equivalents	
	March 31, 2012	March 31, 2011
Cash and due from financial institutions	\$ 2,427,481	\$ 1,309,291
U.S. Central overnight accounts	138,432	36,277
Federal funds sold	59	21
Total cash and cash equivalents	\$ 2,565,972	\$ 1,345,589

2. Regulatory Pronouncements

On October 20, 2010, the NCUA published the final revisions to NCUA Rules and Regulations, Part 704 in the Federal Register. The final regulation includes most of the same major revisions as the proposed regulation. These revisions include changes to corporate credit unions' capital requirements, investments, asset/liability management, governance and credit union service organization activities. Most of the new investment prohibitions and other credit and asset liability management requirements went into effect January 18, 2011. NCUA recognized that some corporates may hold investments that are in violation of one or more of these new prohibitions and have directed such corporates to follow the investment action plan provisions of NCUA Rules and Regulations Section 704.10. Corporate One does hold securities that do not meet certain requirements of the new regulation. During this time of transition to the new investment prohibitions, Corporate One is adhering to Section 704.10 and has filed the required Investment Action Plans (IAP) with the NCUA. On March 22, 2012, we received the annual written approval from the NCUA regarding our IAP with respect to these securities.

The new capital requirements went into effect October 20, 2011, and defined new capital instruments and phased out MCS and PIC. It also established new capital ratio requirements. See Footnote 7 for additional information.

3. Reclassifications

Certain reclassifications have been made in the prior year's financial statements to conform to the presentation for the period ended March 31, 2012. These reclassifications had no impact on net income.

4. Investments in Financial Institutions

Investments in financial institutions at March 31, 2012 and 2011, are summarized as follows (in thousands):

	March 31, 2012	March 31, 2011
U.S. Central:		
Share certificates	\$ 1,700	\$ 179,200
Other shares	2,458	15,679
Federal Home Loan Bank stock	15,702	15,702
Certificates of deposit	23,899	50,200
Total investments in financial institutions	\$ 43,759	\$ 260,781

We invest with U.S. Central in overnight accounts and share certificates. The NCUA established a voluntary guarantee program for uninsured shares, excluding capital investments, of all corporate credit unions through December 31, 2012. U.S. Central is participating in the voluntary guarantee program. All share certificates we hold at U.S. Central mature during 2012.

5. Securities

Debt securities are classified as held-to-maturity and carried on the balance sheet at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they 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 and held-to-maturity securities at March 31, 2012 and 2011, are as follows (in thousands):

March 31, 2012			
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	\$ 322,231	\$ 252,407	\$ (69,824)
Asset-backed securities	1,091,253	1,006,446	(84,807)
Government-sponsored enterprises	77,452	77,723	271
Corporate debt securities	134,758	133,195	(1,563)
Total available-for-sale securities	<u>\$ 1,625,694</u>	<u>\$ 1,469,771</u>	<u>\$ (155,923)</u>
	Amortized Cost	Fair Value	Net Unrecognized Loss
Held-to-maturity securities:			
Mortgage-related securities	\$ 2,370	\$ 1,776	\$ (594)
Total held-to-maturity securities	<u>\$ 2,370</u>	<u>\$ 1,776</u>	<u>\$ (594)</u>

March 31, 2011			
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	\$ 395,451	\$ 320,501	\$ (74,950)
Asset-backed securities	995,752	922,332	(73,420)
Government-sponsored enterprises	80,170	80,590	420
Corporate debt securities	192,857	192,619	(238)
Total available-for-sale securities	<u>\$ 1,664,230</u>	<u>\$ 1,516,042</u>	<u>\$ (148,188)</u>
	Amortized Cost	Fair Value	Net Unrecognized Loss
Held-to-maturity securities:			
Mortgage-related securities	\$ 2,370	\$ 2,298	\$ (72)
Total held-to-maturity securities	<u>\$ 2,370</u>	<u>\$ 2,298</u>	<u>\$ (72)</u>

Accumulated other comprehensive losses at March 31, 2012 and 2011, were \$158.4 million and \$150.9, respectively. These amounts include net unrealized losses on available-for-sale securities and non-credit losses on available-for-sale and held-to-maturity securities. The non-credit losses on held-to-maturity securities were approximately \$2.5 million and \$2.7 million at March 31, 2012 and 2011, respectively.

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. This guidance also establishes a fair value hierarchy, 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, 2012 (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	\$ 57,943		\$ 57,943	
Mortgage-related securities-private	194,464		33,533	\$ 160,931
Asset-backed securities:				
Student loans-FFELP	310,872		259,427	51,445
Student loans-private	156,802		152,000	4,802
Credit cards	314,650		314,650	
Automobiles	224,122		224,122	
Government-sponsored enterprises	77,723	\$ 70,071	7,652	
Corporate debt securities	133,195	133,195		
Total available-for-sale securities	\$ 1,469,771	\$ 203,266	\$ 1,049,327	\$ 217,178

We evaluate all our securities for other-than-temporary impairment (OTTI) on a quarterly basis. We first evaluate all of our securities in an unrealized loss position to assess whether we have the intent to sell any of the securities or if it is more likely than not that we will be required to sell any of our securities before their anticipated recovery. Next, to determine if the declines in fair value below amortized cost represents OTTI, management considers various impairment indicators such as: securities on our internal watch list, securities that have had ratings downgrades, securities that have been underwater for greater than 12 months and securities that have severe unrealized losses. We also utilize outside services to assist management in performing detailed cash flow analyses to determine if all principal and interest cashflows will be received. The analyses performed require assumptions about the collateral underlying the securities, including default rates, loss severities on defaulted loans and prepayments. It is possible that the underlying loan collateral of these securities may perform at a level worse than our expectations, which may result in adverse changes in cashflows for these securities and potential OTTI write-downs in the future. For the securities where we believe not all principal and interest will be received, OTTI charges will be recorded. During our first quarter review for OTTI, we determined that no OTTI charges were necessary.

The following table (in thousands) details cumulative credit losses on other-than-temporarily impaired debt securities through March 31, 2012.

	Cumulative credit losses on debt securities
Cumulative credit losses on debt securities previously recognized in earnings prior to January 1, 2012	\$ (61,224)
Reduction due to increases in expected cashflows recognized in 2012	250
Cumulative credit losses on debt securities recognized in earning from December 2008 through March 31, 2012	\$ (60,974)

For securities where we believe not all principal and interest will be received, OTTI charges were recorded. The charges, which represent the estimated credit losses, are determined by calculating the difference between the discounted cashflows of the securities and their current amortized cost. Since 2008, we have recorded total OTTI, or expected credit losses, of \$61.8 million. To date, we have had total cumulative principal shortfalls of approximately \$18.7 million. We have also had cumulative recoveries to date of approximately \$800,000 due to sales and/or improved cashflows.

Certain securities are pledged as collateral to secure our ability to borrow at the Fed Discount Window. At March 31, 2012, those pledged securities had a fair value of approximately \$133.2 million.

6. Borrowed Funds

Borrowed funds as of March 31, 2012 and 2011, are noted below (in thousands).

	March 31, 2012	March 31, 2011
FHLB-Cincinnati	\$ 20,000	\$ 30,000
Total borrowed funds	\$ 20,000	\$ 30,000

Borrowed funds from the FHLB-Cincinnati are secured by collateral held by the institution, consisting of securities held in their safekeeping. At March 31, 2012, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately \$133.1 million.

7. Capital Ratios

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.

The regulation contains a multi-step, multi-year phase in of the new capital requirements. The new requirements went into effect on October 20, 2011; however, certain definitions change 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 new regulation. The definitions of the numerators are simplifications, as the new regulation contains certain adjustments to each capital calculation.

	Numerator	Denominator	Well capitalized	Adequately capitalized
Retained earnings ratio	RUDE	MDANA	0.45/1.00/2.00% [^]	
Permanent Leverage ratio	RUDE+PCC	MDANA	5.00%	4.00%
Tier 1 risk-based capital ratio	RUDE+PCC	MDANRA*	6.00%	4.00%
Total risk-based capital ratio	RUDE+PCC+NCA	MDANRA	10.00%	8.00%

[^]The retained earnings ratio has multi-year requirements per the new rule — 0.45% by third anniversary, 1.00% by sixth anniversary and 2.00% by tenth anniversary.

*Moving Daily Average Net Risk Weighted Assets

Corporate One distributed a *Confidential Information Memorandum* to all of its members asking them to recommit their existing capital instruments by converting it to the new qualifying capital instrument, PCC. Additionally, Corporate One asked its members to invest in NCA. The purpose of the NCA offering was to raise between \$50 million to \$75 million of new capital in the form of NCA. In addition to counting toward certain capital ratios, this new capital increased our NEV to a level that allowed us to achieve the minimum regulatory NEV ratio of 2.0 percent. The response to our capital offering was overwhelming, such that the capital offering was even over-subscribed. Corporate One now holds more than a quarter of a billion dollars in total regulatory capital.

As of March, 2012, MDANA and MDANRA were \$3.21 billion and \$1.23 billion, respectively. Due to a successful capital raise, Corporate One exceeds all capital ratios at the “well capitalized” level as outlined in the recently updated regulations governing corporate credit unions, as well as meets all NEV ratios in both base- and stressed-case scenarios. In addition, beginning in October 2013, a corporate credit union is also required to report its ratio of retained earnings or RUDE to its MDANA. If this ratio is less than 0.45 percent, the corporate credit union must submit a retained earnings accumulation plan to the NCUA for approval. As of March 31, 2012, Corporate One exceeds this requirement, as our retained earnings ratio is 1.20 percent. In fact, at this level, our retained earnings ratio exceeds the 1 percent minimum required by the new regulation in October 2016.

The following summarizes Corporate One's capital ratios as of March 31, 2012, under the new regulation that became effective in October 2011.

	March 31, 2012	Well Capitalized	Adequately Capitalized
RUDE ratio	1.20%	0.45%	0.45%
Interim leverage ratio	7.92%	5.00% [^] /7.00% ^{^^}	4.00%
Tier 1 risk-based capital ratio	14.61%	6.00%	4.00%
Total risk-based capital ratio	20.72%	10.00%	8.00%

[^] Base Plus Expanded Authority Requirement. Under Base Plus, a 20% maximum decline in the Net Economic Value in the stress test required per Reg. 704 is permissible.

^{^^} Part I Expanded Authority. Under Part I, a 28% maximum decline in the Net Economic Value in the stress test required per Reg. 704 is permissible.



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