



Where Credit Unions Belong

Unaudited Financial Statements

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

Third Quarter 2017

Table of Contents

Letter from CFO 3

Management’s Discussion and Analysis of Financial Condition and Results of Operations 4

Consolidated Balance Sheets 12

Consolidated Statements of Income..... 13

Consolidated Statements of Comprehensive Income..... 14

Consolidated Statement of Changes in Members’ Equity 15

Notes to Consolidated Financial Statements..... 16

For further information, please contact:

Tammy Cantrell, Executive Vice President, Asset/Liability Management, 866/692-6771 ext. 9312 or
Melissa Ashley, Executive Vice President and Chief Financial Officer, 866/692-6771 ext. 9351.

Dear Members,

We ended the third quarter of 2017 with net income of \$10.4 million, resulting in a retained earnings balance at September 30, 2017, of \$79.3 million, which is an increase of \$11.7 million since September 30, 2016. Earnings are extremely important to all corporate credit unions as they are a major component of regulatory capital. As of September 30, 2017, we had total capital of \$293.2 million, which includes \$219.2 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 6.41 percent, which exceeds the well-capitalized level of 5 percent for this ratio in NCUA's Regulation 704.

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 NCUA. 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.

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

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 2016 Annual Report. The 2016 Annual Report can be found on Corporate One’s public website www.corporateone.coop/About-Us/Due-Diligence.aspx.

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 resulted in retained earnings of \$79.3 million at September 30, 2017, an increase of \$11.7 million from September 30, 2016. We continually strive to balance the need to build retained earnings to meet future regulatory capital requirements with our desire to invest in new products and services that will help our members. We believe it is critical to remaining a financially strong and innovative partner to our members.

The following is a summary of Corporate One’s results of operations, and return on average assets (ROA) for the nine months ended September 30, 2017 and 2016 (dollar amounts in thousands).

	Nine months ended	
	September 30, 2017	September 30, 2016
Net interest income	\$ 22,602	\$ 21,262
Net service fee income	9,910	10,424
Operating expenses	(26,483)	(25,506)
Other gain (loss)	2,261	829
Gain on sale of product line	2,072	
Net income	\$ 10,362	\$ 7,009
DANA for the nine months ended	\$ 3,583,321	\$ 3,847,938
ROA	0.39%	0.24%

Our earnings for the nine months ended September 30, 2017 were \$10.4 million. This is approximately \$3.4 million more than the previous year, which is primarily related to \$2.2 million in gains from sales of securities in 2017 and \$2.1 million from the gain on sale of a product line in April 2017. As we moved through our season of low liquidity, we were able to raise liquidity through the sales of securities.

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.

Net interest income was approximately \$1.34 million more in 2017 versus 2016. A significant portion of our interest-earning assets are indexed to 1-month and 3-month LIBOR. These rates tend to be anticipatory in nature and have increased over prior year in anticipation of an increasing federal funds rate. We price our dividend-bearing liabilities based on the market for overnight rates. As a result, our margins have widened resulting in an increase in net interest income year over year. Additionally, in 2016 we had been paying our members 4 percent on the \$82.7 million of Non-perpetual Capital Accounts (NCA) they had invested in us. The NCA was issued for a specific purpose in 2011 and had a five year term. The majority matured on April 29, 2016, with the last \$2.25 million maturing June 29, 2016. Since we no longer needed the NCA due to our healthy capital position, we did not re-issue any NCA when it matured. This has also contributed to a wider net interest margin and hence increased levels of net interest income year over year. Net service fee income was approximately \$514,900 less in 2017 versus 2016. This decrease year over year is due to the sale of our cards program. Increases in operating expenses year over year relate to investments we are making in people, technology and infrastructure to ensure we can support our member credit unions in the rapidly changing world of technology and payments in the financial services arena.

Capital Position

As of September 30, 2017, our total regulatory capital (as defined by the NCUA) is \$293.2 million, which is an increase of approximately \$11.6 million since September 30, 2016. This increase in total regulatory capital is due to our strong earnings.

Certain definitions of regulatory capital components change over time. One such change became effective in October 2016 and limited the amount of PCC included in Tier 1 Capital. This limitation is a function of both Moving Daily Average Net Asset (MDANA) and retained earnings. In 2020, this limitation becomes more severe, limiting the inclusion of PCC in Tier 1 Capital to an amount equal to the amount of retained earnings a corporate holds.

The table (in thousands) below outlines the components of capital and the order of priority, listed in order from lowest to highest priority.

	September 30, 2017	September 30, 2016
Retained earnings	\$ 79,283	\$ 67,535
PIC	20	20
PCC	219,174	219,174
Total regulatory capital account balances	298,477	286,729
Less CUSO's (equity)	(6,189)	(5,998)
Plus retained earnings of acquired entity	869	869
Total regulatory capital	\$ 293,157	\$ 281,600
Unamortized PIC	(20)	(20)
Excluded PCC*	(68,439)	
Tier 1 Capital	\$ 224,698	\$ 281,580

*Per the regulation beginning in October 2016 all corporate credit unions must exclude the portion of PCC equal to the amount of PCC less retained earnings exceeding 2 percent of MDANA.

The following summarizes Corporate One's capital ratios as of September 30, 2017 and 2016 (dollar amounts in millions):

	September 30, 2017	September 30, 2016
Retained earnings/MDANA	2.26%	1.79%
Leverage ratio	6.41%	7.47%
Tier 1 risk-based capital ratio	22.51%	22.18%
Total risk-based capital ratio	29.36%	22.18%
MDANA [^]	\$ 3,504	\$ 3,770
MDANRA ^{^^}	\$ 998	\$ 1,269

[^]Moving Daily Average Net Assets

^{^^}Moving Daily Average Net Risk-Weighted Assets

Corporate One is focused on maintaining strong capital levels and as shown in the table above, we exceed all of NCUA's required capital ratios (see table below). During the past twelve months, we increased our retained earnings by \$11.9 million, which boosted our retained earnings as a percentage of MDANA year over year.

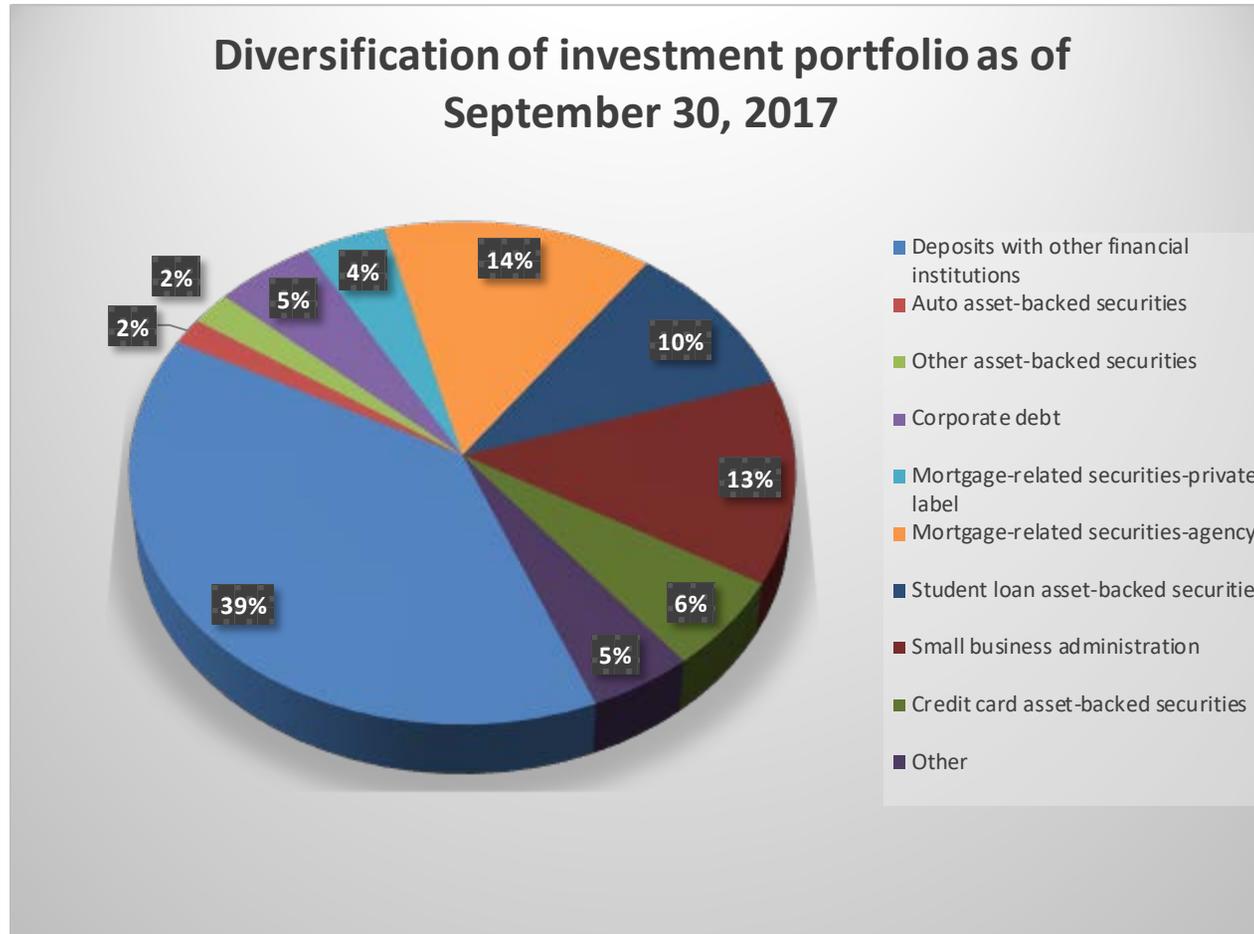
The following summarizes the NCUA requirements for the various capital ratios:

	Well Capitalized	Adequately Capitalized
Retained earnings/MDANA	0.45%	0.45%
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 8 for more information regarding the capital requirements of the revised 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 September 30, 2017, is shown in the figure below.



Our portfolio remains well diversified. Eighty-seven percent of the book value of our portfolio is in cash and cash equivalents, agencies and securities rated “A” or higher, as assigned by Nationally Recognized Statistical Rating Organizations (NRSROs).

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 estimated cash flows of the securities and their current amortized cost. Since 2008, we have recorded total OTTI, or expected credit losses, of \$68.5 million. To date, we have had total cumulative principal shortfalls of approximately \$34.7 million. We have also had cumulative recoveries to date of approximately \$12.5 million due to sales, class action suits and/or improved cash flows.

Market/Spread Risk

Because we invest in securities, we are also exposed to market risk due to liquidity and credit spreads. Overall net unrealized losses on securities improved \$34.1 million since September 30, 2016. As of September 30, 2017, our total net unrealized gains on securities were \$8.0 million. The most significant changes are in our student loan asset-backed securities portfolio and our mortgage-related securities. While the student loan sector still remains our greatest area of net unrealized losses, collateral performance in these securities has continued to improve and spreads have tightened in that portfolio resulting in improved market values for many of our student loan holdings. Our student loan asset-backed securities sector is primarily composed of Federal Family Education Loan Program (FFELP) student loan asset-backed securities. FFELP student loan asset-backed securities continue to benefit from the ultimate guarantee from the US Department of Education as to payment of principal and accrued interest of 97 percent or more, based on the date of loan origination, for properly serviced FFELP student loans even if the stated maturity date is not met. We believe we will not sustain credit related losses in this sector and we expect the fair values of our student loan asset-backed securities to improve and to fully recover as the securities approach their maturity.

The following table (in thousands) summarizes our net unrealized gains (losses) by asset class:

Type	Net unrealized gains (losses)	
	September 30, 2017	September 30, 2016
Student loans	\$ (13,442)	\$ (29,429)
Mortgage-related	12,078	(3,734)
Corporate debt	1,244	526
Automobiles	375	227
Credit cards	1,003	823
Small business administration	6,632	5,432
Other	61	
Net unrealized gains (losses) on securities	\$ 7,951	\$ (26,155)

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 basis points (bps).

Our NEV continues to improve as our earnings grow. In addition, the fair value of our securities have improved over prior year also contributing to our increased NEV over September 30, 2016. Our NEV ratio remains well above the minimum NCUA requirement of 2 percent. Overall, our NEV ratio at September 30, 2017, was 9.06 percent in the base case and 8.89 percent in the 300 bps stress scenario.

The structure of our balance sheet results in minimal interest-rate risk. When members deposit funds with us, we have the ability to 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 September 30, 2017 and 2016, is shown below (dollar amounts in thousands).

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of September 30, 2017*				
300 bps rise in rates	\$ 299,717	8.89%	\$ (6,643)	-2.17%
Base scenario	\$ 306,360	9.06%		
As of September 30, 2016*				
300 bps rise in rates	\$ 252,818	6.31%	\$ (6,984)	-2.69%
Base scenario	\$ 259,802	6.47%		

*300, 200 and 100 bps decline did not apply in the interest rate environment present on September 30, 2017 and 2016.

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. In fact, as of September 30, 2017, we had approximately \$1.28 billion in cash and cash equivalents. This is significant given our total balance sheet of \$3.38 billion and settlement and regular shares of \$2.63 billion. In addition, we strive to buy securities with readily determined market values that can be sold or borrowed against to generate liquidity.

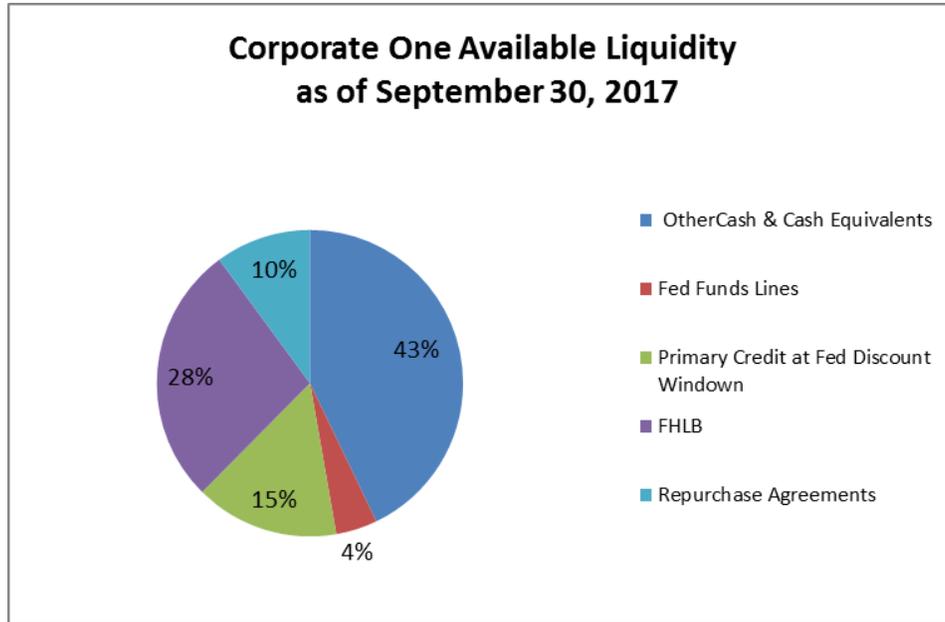
We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union may deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of September 30, 2017, our single largest depositor represented only eight percent of our total member shares.

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 September 30, 2017, was approximately \$1.70 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately \$864.7 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 \$817.7 million at September 30, 2017. In addition, we maintain a reverse repurchase agreement with another party totaling \$300.0 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 \$130.0 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.

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 \$451.7 million at September 30, 2017.

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 \$3.49 billion as of September 30, 2017. 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)

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Assets		
Cash and cash equivalents	\$ 1,275,172,463	\$ 1,471,278,188
Investments in financial institutions	43,134,000	46,942,700
Available-for-sale securities, at fair value	1,866,382,673	2,268,562,599
Loans	115,695,048	151,113,783
Accrued interest receivable	4,347,932	2,572,588
Goodwill	3,401,412	3,401,412
Intangible assets	9,859,970	12,314,470
Other assets	61,657,485	60,881,120
TOTAL ASSETS	3,379,650,983	4,017,066,860
Liabilities and Members' Equity		
Liabilities:		
Settlement and regular shares	2,633,935,745	3,080,781,795
Share certificates	386,564,578	280,845,590
Borrowed funds	47,000,000	390,000,000
Dividends and interest payable	137,162	34,700
Accounts payable and other liabilities	5,605,588	4,850,500
TOTAL LIABILITIES	3,073,243,073	3,756,512,585
Members' equity:		
Perpetual contributed capital	219,173,910	219,173,905
Retained earnings	79,282,530	67,535,368
Accumulated other comprehensive income (loss)	7,951,470	(26,154,998)
TOTAL MEMBERS' EQUITY	306,407,910	260,554,275
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,379,650,983	\$ 4,017,066,860

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (unaudited)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Interest Income:		
Investments and securities	\$ 39,259,145	\$ 29,538,682
Loans	1,665,179	1,692,447
Total Interest Income	40,924,324	31,231,129
Dividend And Interest Expense:		
Share accounts	14,627,235	8,702,163
Other borrowings	3,695,231	1,267,312
Total Dividend And Interest Expense	18,322,466	9,969,475
Net Interest Income	22,601,858	21,261,654
Total Settlement Income	14,893,457	16,895,855
Total Settlement Expense	4,983,890	6,471,362
Net Service Fee Income	9,909,567	10,424,493
Salaries and employee benefits	16,176,525	15,286,813
Amortization of intangibles expense	1,835,831	2,131,666
Office operations and occupancy expense	6,046,000	6,085,074
Other operating expenses	2,424,327	2,002,924
Total Operating Expenses	26,482,683	25,506,477
Net gain on financial instruments:		
Total other-than-temporary impairment losses		(404,296)
Portion of loss recognized in other comprehensive income		233,591
Gain on sales of securities	2,261,076	999,987
Net Gain on Financial Instruments	2,261,076	829,282
Gain on sale of product line	2,072,329	
Net Income	\$10,362,147	\$7,008,952

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)

	Nine Months Ended	
	September 30, 2017	September 30, 2016
Net Income	\$ 10,362,147	\$ 7,008,952
Other comprehensive income:		
Change in net unrealized gain (loss) on available-for-sale securities	28,750,115	14,094,894
Reclassification adjustment recognized in earnings for other-than-temporary declines in value of securities		170,705
Reclassification adjustment recognized in earnings for gain from sales of securities	(2,261,076)	(999,987)
Total other comprehensive income	26,489,039	13,265,612
Comprehensive income	\$ 36,851,186	\$ 20,274,564

See accompanying notes to consolidated financial statements.

**Consolidated Statement of Changes in Members' Equity For the Nine Months
 Ended September 30, 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		10,362,147		10,362,147
Other comprehensive income			26,489,039	26,489,039
Issuance of PCC	5			5
Dividends on PCC		(1,068,091)		(1,068,091)
Balance at September 30, 2017	<u>\$219,173,910</u>	<u>\$79,282,530</u>	<u>\$ 7,951,470</u>	<u>\$ 3,06,407,910</u>

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, 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 three credit union service organizations (CUSOs): Member Business Solutions, LLC (MBS), Corporate Synergies, LLC (CorpSyn) and Accolade Investment Advisory, LLC (Accolade). The consolidated financial statements include the accounts of Corporate One and the three CUSOs. All significant intercompany accounts and transactions have been eliminated.

2. Cash and Cash Equivalents

Cash and cash equivalents include cash and amounts due from depository institutions. Corporate One is required to maintain cash or deposits with the Federal Reserve Bank. At September 30, 2017 and 2016, cash held prior to month-end was sufficient; therefore, no reserve was required.

3. Regulatory Pronouncements

On October 20, 2010, the NCUA published the final revisions to NCUA Rules and Regulations, Part 704 in the Federal Register. The major 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 were effective January 18, 2011. NCUA recognized that as of the effective date, some corporates may have held investments that were in violation of one or more of these new prohibitions and those investments were grandfathered under the previous rules until or if they would violate any credit-related prohibitions. Any investments acquired after the effective date of the changes must comply with the investment prohibitions. Should a corporate violate any of these prohibitions, they are required to follow the investment action plan provisions of NCUA Rules and Regulations Section 704.10. Corporate One holds securities that do not meet certain requirements of the new regulation. Corporate One is adhering to Section 704.10 and has filed the required Investment Action Plans (IAP) for these securities with the NCUA. In a letter dated March 7, 2017 NCUA confirmed that they have permitted Corporate One to hold non-compliant securities under a number of IAP and do not intend to require Corporate One to sell any securities. The IAP approval time period is not to exceed March 31, 2018, at which time new IAP are required to be submitted to NCUA.

4. Sale of Product Line

On April 14, 2017, Corporate One 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. In order to appropriately support our credit unions on this program, Corporate One made the decision to transition this business to PSCU allowing our credit unions direct access to the entire PSCU service and support team. The asset purchase price was \$1.8 million in cash and a \$300,000 retention bonus to be paid over the next five years. The asset purchase agreement resulted in a gain of

approximately \$2.1 million which was recognized in April 2017. No net service fee income related to this product line was recognized through the date of the sale. For the nine months ended September 30, 2016, Corporate One recognized approximately \$552,000 in net service income for this business line.

5. Investments in Financial Institutions

Investments in financial institutions at September 30, 2017 and 2016, are summarized as follows (in thousands):

	September 30, 2017	September 30, 2016
Federal Home Loan Bank stock	\$ 39,710	\$ 21,871
Certificates of deposit	3,424	25,072
Total investments in financial institutions	\$ 43,134	\$ 46,943

6. 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 September 30, 2017 and 2016, are as follows (in thousands):

	September 30, 2017		
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	\$ 600,071	\$ 612,149	\$ 12,078
Asset-backed securities	655,420	643,417	(12,003)
Small business administration	431,468	438,100	6,632
Corporate debt securities	171,473	172,717	1,244
Total available-for-sale securities	\$ 1,858,432	\$ 1,866,383	\$ 7,951

September 30, 2016			
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	\$ 738,456	\$ 734,722	\$ (3,734)
Asset-backed securities	1,009,445	981,066	(28,379)
Small business administration	363,841	369,273	5,432
Corporate debt securities	182,976	183,502	526
Total available-for-sale securities	\$ 2,294,718	\$ 2,268,563	\$ (26,155)

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 September 30, 2017 (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	\$ 460,992	\$ 10,060	\$ 450,932	
Mortgage-related securities-private	151,157		17,303	\$ 133,854
Asset-backed securities:				
Student loans-FFELP	287,069		287,069	
Student loans-private	34,178		33,557	621
Credit cards	195,860		195,860	
Automobiles	56,249		56,249	
Other	70,061		70,061	
SBA securities	438,100		438,100	
Corporate debt securities	172,717	172,717		
Total available-for-sale securities	\$ 1,866,383	\$ 182,777	\$ 1,549,131	\$ 134,475

We evaluate all our securities for other-than-temporary impairment (OTTI) on a semi-annual 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: IAP securities, 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 cash flows 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 cash flows 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 were recorded. The charges, which represent the estimated credit losses, are determined by calculating the difference between the discounted cash flows of the securities and their current amortized cost. We determined no OTTI was required during the first, second and third quarters of 2017.

The following table (in thousands) details cumulative credit losses on other-than-temporarily impaired debt securities since 2008 through September 30, 2017.

	Cumulative credit losses on debt securities
Cumulative credit losses on debt securities previously recognized in earnings at January 1, 2017	\$ (55,838)
Reduction due to sales of securities recognized in 2017	532
Reduction due to increases in expected cash flows recognized in 2017	703
Cumulative credit losses on debt securities previously recognized in earnings at September 30, 2017	\$ (54,603)

7. 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 September 30, 2017 and 2016, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately \$888.7 million and \$902.5 million, respectively, which provided a borrowing capacity of approximately \$864.7 million and \$868.5 million, respectively. At September 30, 2017, Corporate One had overnight borrowings outstanding with the FHLB of \$47.0 million at a rate of 1.17 percent. These borrowings matured in October 2017. At September 30, 2016, Corporate One had overnight borrowings outstanding with the FHLB for \$390.0 million at a rate of 0.40 percent. These borrowings matured in October 2016.

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 Federal Reserve Bank by collateral that is acceptable for that purpose. At September 30, 2017 and 2016, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately \$494.4 million and \$500.5 million, respectively, which provided a borrowing capacity of approximately \$451.7 million and \$459.5

million, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of September 30, 2017 and 2016.

8. 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.

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). These limitations resulted in leverage and Tier 1 risk-based capital ratios lower than previous levels but still above well capitalized levels. In 2020, the amount of PCC included in Tier 1 Capital is further limited to the amount of retained earnings a corporate holds. This limitation in 2020 will result in lower leverage and Tier 1 risk-based capital ratios.

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.

In June 2015, the NCUA issued a rule to further amend the regulations by clarifying the mechanics of a number of regulatory provisions and make several non-substantive technical corrections. None of which had a material effect on our ratios.

	Numerator	Denominator	Well capitalized	Adequately capitalized
Retained earnings/MDANA	Retained earnings	MDANA *	0.45%	0.45%
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%

*Moving Daily Average Net Assets

**Moving Daily Average Net Risk Weighted Assets

***As defined by the NCUA Rules and Regulations §704.2

During 2011, Corporate One offered its Partner members the opportunity to convert their MCS and/or PIC to the new qualifying capital instrument, PCC, in order to continue to be considered Partner members of Corporate One. During 2012, we acquired \$68.6 million of PCC through the merger with another

corporate credit union. Corporate One continues to offer PCC to Associate members or new members who want to become Partner members of Corporate One.

The following table (in thousands) outlines the components of regulatory capital at September 30:

	<u>2017</u>	<u>2016</u>
Retained earnings	\$ 79,283	\$ 67,535
PCC	219,174	219,174
Add: retained earnings of acquired credit union	869	869
Less: CUSO equity investments	(6,189)	(5,998)
Less: Excluded PCC*	(68,439)	
Tier 1 Capital	<u>224,698</u>	<u>\$ 281,580</u>
Unamortized PIC	20	20
Add: Excluded PCC*	68,439	
Tier 2 Capital	<u>68,459</u>	<u>20</u>
TOTAL CAPITAL	\$ 293,157	\$ 281,600

*As per the regulation beginning in October 2016 all corporate credit unions must exclude the portion of PCC equal to the amount of PCC less retained earnings exceeding 2 percent of MDANA.

As of September 30, 2017, MDANA and MDANRA were \$3.57 billion and \$998.34 million, respectively. As of September 30, 2016, MDANA and MDANRA were \$3.77 billion and \$1.27 billion, respectively.

The following summarizes Corporate One's capital ratios as of September 30, 2017 and 2016.

	September 30, 2017	September 30, 2016
Retained earnings/MDANA	2.26%	1.79%
Leverage ratio	6.41%	7.47%
Tier 1 risk-based capital ratio	22.51%	22.18%
Total risk-based capital ratio	29.36%	22.18%



P.O. Box 2770
Columbus, OH 43216-2770

8700 Orion Place
Columbus, OH 43240-2078

866/MyCorp1

www.corporateone.coop