Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

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

First Quarter 2018

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For further information, please contact:

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

Dear Members,

We ended the first quarter of 2018 with net income of $3.1 million, resulting in a retained earnings balance at March 31, 2018, of $84.1 million, which is an increase of $12.0 million since March 31, 2017. Earnings are extremely important to all corporate credit unions as they are a major component of regulatory capital. As of March 31, 2018, we had total regulatory capital of $298.5 million, which includes $220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 7.38 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704.

A strong capital level is important for several reasons. First, this capital protects members' shares and certificates. Second, we believe that one of the fundamental reasons that 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. Third, strong levels of capital allow us to invest in technology to bring new products and services to our membership. Finally, our capital position results in Corporate One exceeding the capital requirements of NCUA. As we continue to grow and expand our membership, new members cite our strong capital position as one of their requirements when looking for a corporate. Our strong capital ratios are important for our members and prospective members when they perform their due diligence of Corporate One.

Corporate One maintains a strong liquidity position with a focus on ensuring liquidity is available to our members when they need it. As a result of our members' increasing loan-to-share ratios, our overall balance sheet has decreased year over year as we recognized a decrease in overnight shares. To ensure we maintain sufficient liquidity to help our members manage their liquidity position, we have structured our balance sheet to handle this type of share-balance fluctuation. Our strategy includes investing in highly liquid securities that can be sold. Throughout 2017 we saw spreads tighten on the securities we own, resulting in higher fair values. Accordingly, our available-for-sale securities portfolio is in an unrealized gain position. In addition, we recognized a gain of $622,700 on the sale of approximately $15.4 million worth of securities in the first quarter 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 $1.81 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

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 2017 Annual Report. The 2017 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 $84.1 million at March 31, 2018, an increase of $12.0 million from March 31, 2017. We continually strive to balance the need to build retained earnings to meet regulatory capital requirements with our desire to invest in new products and services that will help our members. We believe it is critical to be both financially strong and an 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 three months ended March 31, 2018 and 2017 (dollar amounts in thousands).

	Three months ended	
	March 31, 2018	March 31, 2017
Net interest income	$ 8,182	$ 7,679
Net service fee income	3,196	3,424
Operating expenses	(8,940)	(8,722)
Other gain	623	60
Net income	$ 3,061	$ 2,441
DANA for the three months ended	$ 3,378,474	$ 3,773,515
ROA	0.36%	0.26%

Our earnings for the three months ended March 31, 2018 were $3.1 million. This is approximately $620,100 more than the previous year, which is primarily related to $622,700 in gains on sales of securities in 2018.

Net interest income was approximately $503,200 more during the first quarter of 2018 versus the first quarter of 2017. 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. Net service fee income was approximately $228,100 less in 2018 versus 2017. This decrease year over year is primarily due to the sale of our cards program in April 2017. In addition, we saw declines in revenue from check processing services in 2018 due to the general decline in check usage by consumers. 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 March 31, 2018, our total regulatory capital (as defined by the NCUA) is $298.5 million, which is an increase of approximately $12.3 million since March 31, 2017. 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 Perpetual Contributed Capital (PCC) included in Tier 1 Capital. This limitation is a function of both Moving Daily Average Net Asset (MDANA) and retained earnings. On November 22, 2017, the NCUA Board issued further amendments to Part 704. Specifically, the amendments revise provisions issued in 2011 on retained earnings and Tier 1 capital. The 2017 amendments include a revision to the definition of retained earnings and Tier 1 capital and the addition of a definition for a retained earnings ratio. The effective date of these amendments was December 22, 2017.

The 2017 revision to the definition of retained earnings clarifies the components and adds Generally Accepted Accounting Principles (GAAP) equity acquired in a merger to the definition. Modifications to the Tier 1 capital definition includes the removal of a requirement in 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings. The amendment further adds a benchmark for corporates to achieve a retained earnings ratio of 250 basis points. Prior to attaining the benchmark, the corporate would be required to deduct the amount of 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 ratio as of the effective date of the amendment.

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

	March 31, 2018	March 31, 2017
Retained earnings	$ 84,117	$ 72,159
Paid in Capital (PIC)	20	20
PCC	220,349	219,174
Total regulatory capital account balances	304,486	291,353
Less: CUSO equity investments	(6,032)	(6,070)
Add: retained earnings of acquired entity*		869
Total regulatory capital	$ 298,454	$ 286,152
Less: Unamortized PIC	(20)	(20)
Less: Excluded PCC**	(43,536)	(71,819)
Tier 1 Capital	$ 254,898	$ 214,313

*Effective December 2017 only GAAP equity is included in regulatory capital.

**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. In 2017, the regulation changed, and if a corporate credit union's retained earnings ratio is less than 2.5 percent, they must exclude the portion of PCC equal to the amount of PCC from federally-insured credit unions less retained earnings exceeding 2 percent of MDANA.

The following summarizes Corporate One's capital ratios as of March 31, 2018 and 2017 (dollar amounts in millions):

	March 31, 2018	March 31, 2017
Retained earnings ratio	2.40%	1.96%
Leverage ratio	7.38%	5.81%
Tier 1 risk-based capital ratio	29.86%	17.56%
Total risk-based capital ratio	34.97%	23.45%
MDANA^	$ 3,505	$ 3,760
MDANRA^^	$ 854	$ 1,220

^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 $12.0 million, which boosted our retained earnings ratio.

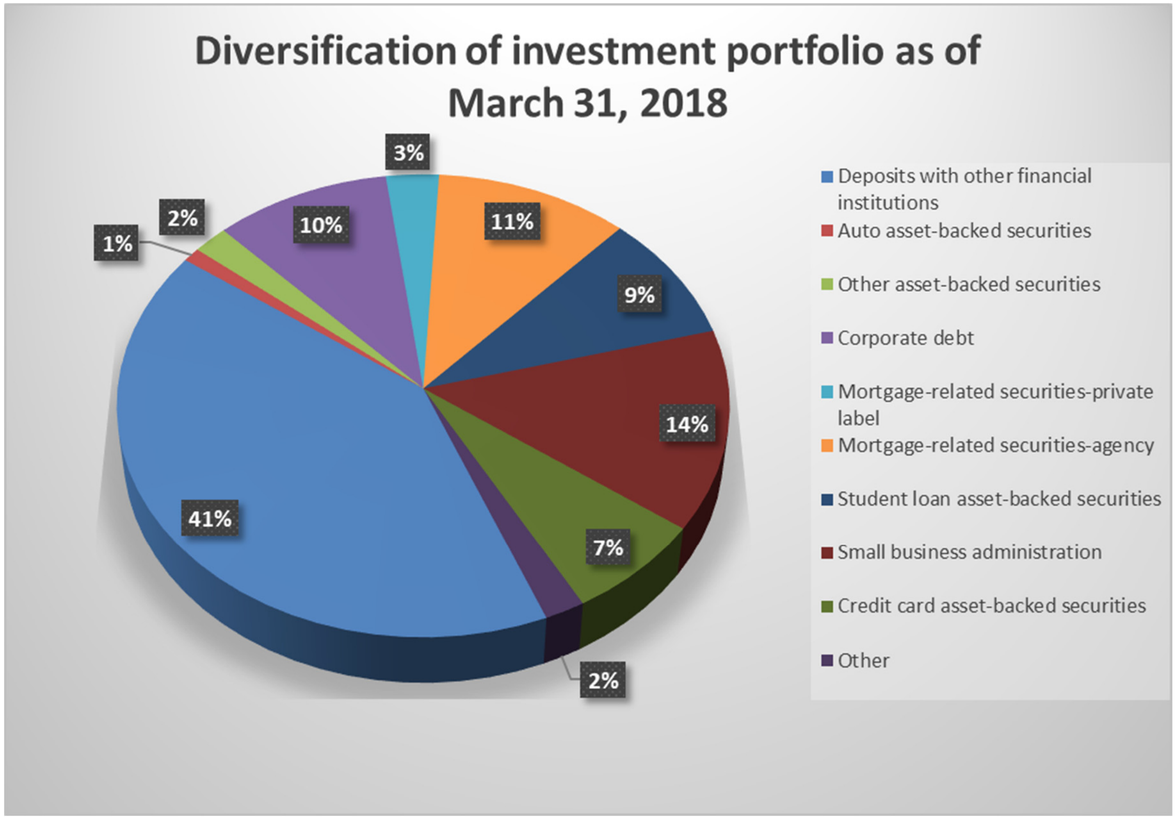
The following summarizes the NCUA requirements for the various capital ratios:

	Well Capitalized	Adequately Capitalized
Retained earnings ratio	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 March 31, 2018, is shown in the figure below.



Our portfolio remains well diversified. Eighty-nine 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 $68.6 million. To date, we have had total cumulative principal shortfalls of approximately $35.2 million. We have also had cumulative recoveries to date of approximately $13.4 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 $22.0 million since March 31, 2017. As of March 31, 2018, our total net unrealized gains on securities were $13.5 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, spreads continue to tighten 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:

	Net unrealized gains (losses)	
Type	March 31, 2018	March 31, 2017
Student loans	$ (8,184)	$ (17,929)
Mortgage-related	13,001	(133)
Corporate debt	1,124	1,719
Automobiles	248	521
Credit cards	848	1,035
Small business administration	6,480	6,236
Insurance funding agreement	(25)	
Net unrealized gains (losses) on securities	$ 13,492	$ (8,551)

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 March 31, 2017. Our NEV ratio remains well above the minimum NCUA requirement of 2 percent. Overall, our NEV ratio at March 31, 2018, was 8.41 percent in the base case and 8.30 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 re-pricing 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 March 31, 2018 and 2017, is shown below (dollar amounts in thousands).

	Net Economic Value	NEV Ratio	Actual Dollar Change from Base	Percentage Change from Base
As of March 31, 2018*				
300 bps rise in rates	$ 313,339	8.30%	$ (4,984)	-1.57%
Base scenario	$ 318,323	8.41%		
100 bps decline in rates	$ 319,391	8.43%	$ 1,068	0.34%
As of March 31, 2017*				
300 bps rise in rates	$ 275,713	7.07%	$ (7,171)	-2.53%
Base scenario	$ 282,884	7.24%		

*300 and 200 bps declines did not apply in the interest rate environment present on March 31, 2018 and 300, 200 and 100 bps declines did not apply in the interest rate environment on March 31, 2017.

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 March 31, 2018, we had approximately $1.51 billion in cash and cash equivalents. This is significant given our total balance sheet of $3.78 billion and settlement and regular shares of $3.13 billion. In addition, we strive to buy securities with readily determined market values that can be sold or borrowed against to generate liquidity.

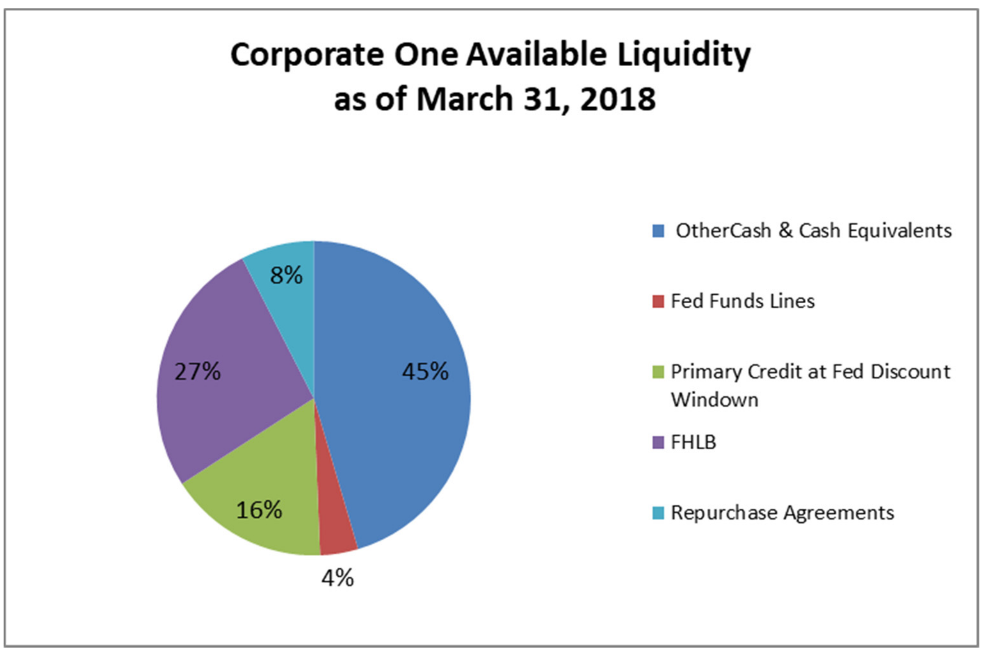
We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union may deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of March 31, 2018, our single largest depositor represented only five 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 March 31, 2018, was approximately $1.81 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $884.2 million. This line of credit is secured by certain investments held in safekeeping at the FHLB. Corporate One's borrowing capacity at the FHLB was approximately $884.2 million at March 31, 2018 as there were no borrowings outstanding. In addition, we maintain a reverse repurchase agreement with another party totaling $250.0 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 $547.5 million at March 31, 2018.

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 $3.51 billion as of March 31, 2018. 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)

Assets	March 31, 2018	March 31, 2017
Cash and cash equivalents	$ 1,508,863,996	$ 1,284,220,831
Investments in financial institutions	43,134,000	30,534,700
Securities available for sale, at fair value	2,096,805,817	2,412,543,367
Loans	57,182,896	104,769,253
Accrued interest receivable	5,579,469	3,237,338
Goodwill	3,401,412	3,401,412
Intangible assets	8,636,083	11,090,583
Other assets	59,499,883	57,660,568
TOTAL ASSETS	3,783,103,556	3,907,458,052
Liabilities and Members' Equity		
Liabilities:		
Settlement and regular shares	3,130,786,766	3,365,252,050
Share certificates	322,669,235	223,457,510
Borrowed funds		26,000,000
Dividends and interest payable	96,762	40,231
Accounts payable and other liabilities	11,592,892	9,926,935
TOTAL LIABILITIES	3,465,145,655	3,624,676,726
Members' equity:		
Perpetual contributed capital	220,349,122	219,173,905
Retained earnings	84,116,927	72,158,655
Accumulated other comprehensive income (loss)	13,491,852	(8,551,234)
TOTAL MEMBERS' EQUITY	317,957,901	282,781,326
TOTAL LIABILITIES AND MEMBERS' EQUITY	$ 3,783,103,556	$ 3,907,458,052

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (unaudited)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Interest Income:		
Investments	$ 16,415,471	$ 11,792,048
Loans	413,774	494,191
Total Interest Income	16,829,245	12,286,239
Dividend And Interest Expense:		
Shares	7,548,480	3,846,174
Borrowed funds and other	1,098,434	760,931
Total Dividend And Interest Expense	8,646,914	4,607,105
Net Interest Income	8,182,331	7,679,134
Net Settlement Income	3,195,835	3,423,906
Salaries and employee benefits	5,607,510	5,391,663
Amortization of intangibles expense	605,219	605,219
Office operations and occupancy expense	1,776,811	2,089,218
Other operating expenses	950,621	635,849
Total Operating Expenses	8,940,161	8,721,949
Net Gain on Financial Instruments:		
Gain on sales of securities	622,720	59,493
Net Gain on Financial Instruments	622,720	59,493
Net Income	$ 3,060,725	$ 2,440,584

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net Income	$ 3,060,725	$ 2,440,584
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	3,873,525	10,045,828
Reclassification adjustment recognized in earnings for net gain from sales of securities	(622,720)	(59,493)
Total other comprehensive income	3,250,805	9,986,335
Comprehensive Income	$ 6,311,530	$ 12,426,919

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members' Equity For the Three Months Ended March 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		3,060,725		3,060,725
Other comprehensive income			3,250,805	3,250,805
Issuance of PCC	907,584			907,584
Dividends on PCC		(542,615)		(542,615)
Balance at March 31, 2018	$ 220,349,122	$ 84,116,927	$ 13,491,852	$ 317,957,901

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): Lucro Commercial Solutions, LLC (Lucro) formerly known as Member Business Solutions, LLC, 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 March 31, 2018 and 2017, cash held prior to month-end was sufficient; therefore, no reserve was required.

3. Regulatory Pronouncements

On October 20, 2010, the NCUA published revisions to NCUA Rules and Regulations, Part 704, the rule governing corporate credit unions, in the Federal Register. The major revisions involve corporate credit union capital, investments, asset/liability management, governance and credit union service organization (CUSO) activities. The regulation established a new capital framework, including risk-based capital requirements; imposed new prompt corrective action requirements; placed various new limits on corporate investments; imposed new asset/liability management controls; amended some corporate governance provisions; and limited a corporate CUSO to categories of services pre-approved by the NCUA.

Most of the investment prohibitions and other credit and asset/liability management requirements were 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. In a letter dated March 5, 2018 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, 2019, at which time new IAP are required to be submitted to NCUA.

The new capital requirements went into effect October 20, 2011. The new Regulation Part 704 defined new capital instruments and set forth a process for phasing out MCS and PIC. It also established new capital ratio requirements. On November 22, 2017, the NCUA issued further amendments to Part 704. Specifically, the amendments include a revision to the definition of retained earnings and Tier 1 capital and the addition of a definition for a retained earnings ratio. The effective date of these amendments was December 22, 2017. The 2017 revision to the definition of retained earnings clarifies the components and adds Generally Accepted Accounting Principles (GAAP) equity acquired in a merger to the definition. Modifications to the Tier 1 capital definition includes the removal of a requirement in 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings. The amendment further adds a benchmark for corporates to achieve a retained earnings ratio of 250 basis points. Prior to attaining the benchmark, the corporate would be required to deduct the amount of PCC from federally-insured credit unions exceeding retained earnings by 200 basis points. Prior to these amendments all PCC issued by a corporate was limited. The change to limit only PCC from federally-insured credit unions increases our leverage and Tier 1 risk-based capital ratios as of the effective date of the amendment.

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.

5. Investments in Financial Institutions

Investments in financial institutions at March 31, 2018 and 2017, are summarized as follows (in thousands):

	March 31, 2018	March 31, 2017
Federal Home Loan Bank stock	$ 39,710	$ 22,151
Certificates of deposit	3,424	8,384
Total investments in financial institutions	$ 43,134	$ 30,535

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 March 31, 2018 and 2017, are as follows (in thousands):

March 31, 2018			
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	$ 515,379	$ 528,380	$ 13,001
Asset-backed securities	616,861	679,748	(7,113)
Small business administration	515,199	521,679	6,480
Corporate debt securities	365,875	366,999	1,124
Total available-for-sale securities	$ 2,013,314	$ 2,096,806	$ 13,492

March 31, 2017			
	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	$ 680,034	$ 679,901	$ (133)
Asset-backed securities	1,041,034	1,024,661	(16,373)
Small business administration	468,301	474,537	6,236
Corporate debt securities	231,725	233,444	1,719
Total available-for-sale securities	$ 2,421,094	$ 2,412,543	$ (8,551)

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 March 31, 2018 (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	$ 399,677	$ 20,086	$ 379,591	
Mortgage-related securities-private	128,703		15,377	$ 113,327
Asset-backed securities:				
Student loans-FFELP	278,993		278,993	
Student loans-private	30,949		30,415	533
Credit cards	243,730		243,730	
Automobiles	56,101		56,101	
Insurance funding agreement	69,975		69,975	
SBA securities	521,679		521,679	
Corporate debt securities	366,999	267,652	99,347	
Total available-for-sale securities	$ 2,096,806	$ 287,738	$ 1,695,208	$ 113,860

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 quarter of 2018.

The following table (in thousands) details cumulative credit losses on other-than-temporarily impaired debt securities since 2008 through March 31, 2018.

	Cumulative credit losses on debt securities
Cumulative credit losses on debt securities previously recognized in earnings at January 1, 2018	$ (54,604)
Reduction due to sales of securities recognized in 2018	610
Reduction due to increases in expected cash flows recognized in 2018	63
Cumulative credit losses on debt securities previously recognized in earnings at March 31, 2018	$ (53,931)

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 March 31, 2018 and 2017, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $911.2 million and $893.3 million, respectively, which provided a borrowing capacity of approximately $884.2 million and $861.5 million, respectively. At March 31, 2018, Corporate One had no overnight borrowings outstanding with the FHLB. At March 31, 2017, Corporate One had overnight borrowings outstanding with the FHLB for $26.0 million at a rate of 0.90 percent. These borrowings matured in April 2017.

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 March 31, 2018 and 2017, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately $589.5 million and $486.1 million, respectively, which provided a borrowing capacity of approximately $547.5 million and $438.9 million, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of March 31, 2018 and 2017.

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). Under the 2010 changes, the amount of PCC included in Tier 1 Capital was to be further limited to the amount of retained earnings a corporate holds beginning in 2020.

On November 22, 2017, the NCUA issued further amendments to Part 704. Specifically, the amendments include a revision to the definition of retained earnings and Tier 1 capital and the addition of a definition for a retained earnings ratio. The effective date of these amendments was December 22, 2017.

The 2017 revision to the definition of retained earnings clarifies the components and adds Generally Accepted Accounting Principles (GAAP) equity acquired in a merger to the definition. Modifications to the Tier 1 capital definition includes the removal of a requirement in 2020 to limit PCC counted as Tier 1 capital to the amount of retained earnings. The amendment further adds a benchmark for corporates to achieve a retained earnings ratio of 250 basis points. Prior to attaining the benchmark, the corporate would be required to deduct the amount of PCC from federally-insured credit unions exceeding retained earnings by 200 basis points. Prior to these amendments all PCC issued by a corporate was limited. The change to limit only PCC from federally-insured credit unions increases our leverage and Tier 1 risk-based capital ratios as of the effective date of the amendment.

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

	Numerator	Denominator	Well capitalized	Adequately capitalized
Leverage ratio	Tier 1 Capital***	MDANA*	5.00%	4.00%
Tier 1 risk-based capital ratio	Tier 1 Capital***	MDANRA**	6.00%	4.00%
Total risk-based capital ratio	Total Capital***	MDANRA**	10.00%	8.00%

*Moving Daily Average Net Assets
**Moving Daily Average Net Risk Weighted Assets
***As defined by the NCUA Rules and Regulations §704.2

The following table (in thousands) outlines the components of regulatory capital at March 31:

	2018	2017
Retained earnings	$ 84,117	$ 72,159
Add: PCC	220,349	219,174
Add: retained earnings of acquired credit union*		869
Less: CUSO equity investments	(6,032)	(6,070)
Less: Excluded PCC**	(43,536)	(71,819)
Tier 1 Capital	254,898	$ 214,313
Add: Unamortized PIC	20	20
Add: Excluded PCC**	43,536	71,819
Tier 2 Capital	43,556	71,839
TOTAL CAPITAL	$ 298,454	$ 286,152

*Effective December 2017 only GAAP equity is included in regulatory capital.
**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. In 2017, the regulation changed, and if a corporate credit union's retained earnings ratio is less than 2.5 percent, they must exclude the portion of PCC equal to the amount of PCC from federally-insured credit unions less retained earnings exceeding 2 percent of MDANA.

As of March 31, 2018, MDANA and MDANRA were $3.50 billion and $853.5 million, respectively. As of March 31, 2017, MDANA and MDANRA were $3.76 billion and $1.22 billion, respectively. NCUA Rules and Regulations Part 704 allows for the deductions from Tier 1 capital to also be deducted from MDANA for use in the leverage ratio capital. At March 31, 2018 and 2017, adjusted MDANA (used for the leverage ratios) was $3.45 billion and $3.69 billion, respectively.

The following summarizes Corporate One's capital ratios as of March 31, 2018 and 2017.

	March 31, 2018	March 31, 2017
Retained earnings ratio	2.40%	1.96%
Leverage ratio	7.38%	5.81%
Tier 1 risk-based capital ratio	29.86%	17.56%
Total risk-based capital ratio	34.97%	23.45%

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