Where Credit Unions Belong

Unaudited Financial Statements

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

Second Quarter 2018

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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 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 $87.3 million at June 30, 2018, an increase of $9.9 million from June 30, 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 six months ended June 30, 2018, and 2017 (dollar amounts in thousands).

	Six months ended June 30, 2018		Six months ended June 30, 2017	
Net interest income	$	17,323	$	15,136
Net service fee income		6,622		6,553
Operating expenses		(18,050)		(17,931)
Other gain		1,043		2,221
Gain on sale of product line				2,072
Net income	$	6,938	$	8,051
DANA for the six months ended	$	3,232,353	$	3,548,709
ROA		0.43%		0.45%

Our earnings for the six months ended June 30, 2018, were $6.9 million. This is approximately $1.1 million less than the previous year, which is primarily related to the gain on the sale of a product line in April 2017.

Net interest income was approximately $2.19 million more in 2018 versus 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 $69,900 more in 2018 versus 2017. This increase year over year is primarily due to increased revenues from both our wholly-owned CUSOs as well as our equity-owned CUSOs. 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 June 30, 2018, our total regulatory capital (as defined by the NCUA) is $301.6 million, which is an increase of approximately $10.3 million since June 30, 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 (which Corporate One achieved in June 2018). 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 table (in thousands) below outlines the components of capital and the order of priority, listed in order from lowest to highest priority.

	June 30, 2018	June 30, 2017
Retained earnings	$ 87,307	$ 77,414
Paid in Capital (PIC)	20	20
PCC	220,349	219,174
Total regulatory capital account balances	307,676	296,608
Less: CUSO equity investments	(6,046)	(6,131)
Add: retained earnings of acquired entity*		869
Total regulatory capital	$ 301,630	$ 291,346
Less: Unamortized PIC	(20)	(20)
Less: Excluded PCC**		(68,325)
Tier 1 Capital	$ 301,610	$ 223,001

*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 June 30, 2018 and 2017 (dollar amounts in millions):

	June 30, 2018	June 30, 2017
Retained earnings ratio	2.54%	2.15%
Leverage ratio	8.80%	6.19%
Tier 1 risk-based capital ratio	34.10%	19.94%
Total risk-based capital ratio	34.10%	26.05%
MDANA^	$ 3,427	$ 3,603
MDANRA^^	$ 885	$ 1,118

^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 $9.9 million, which boosted our retained earnings ratio above the 250-basis points bench mark. As a result, our Tier 1 capital increased substantially, thereby increasing both our Leverage and Tier 1 risk-based capital ratios.

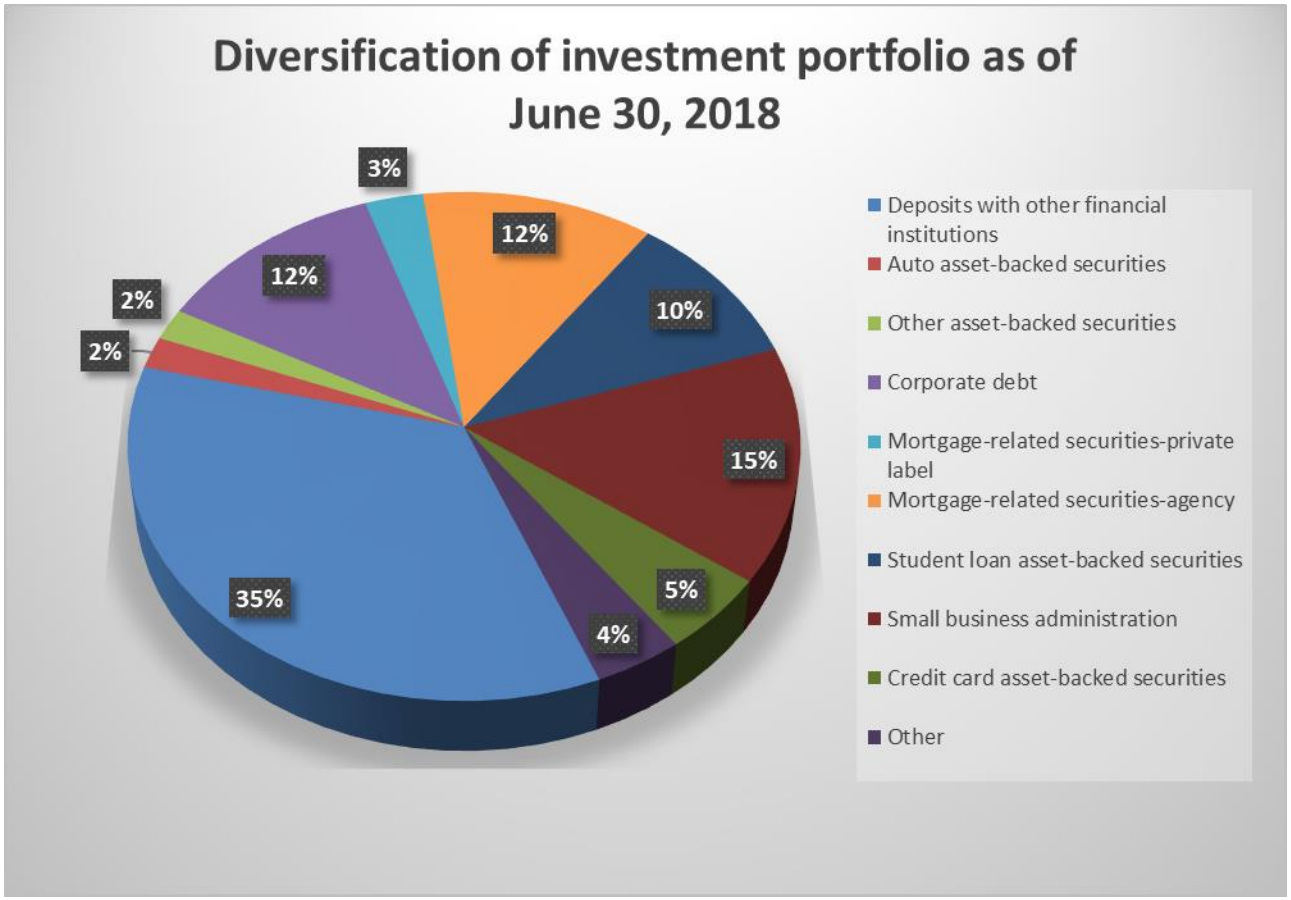
The following summarizes the NCUA requirements for the various capital ratios:

	Well Capitalized	Adequately Capitalized
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 June 30, 2018, is shown in the figure below.



Our portfolio remains well diversified. Eighty-eight 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 $35.5 million. We have also had cumulative recoveries to date of approximately $13.6 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 $13.9 million since June 30, 2017. As of June 30, 2018, our total net unrealized gains on securities were $12.1 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:

Type	Net unrealized gains (losses) June 30, 2018	June 30, 2017
Student loans	$ (7,360)	$ (15,193)
Mortgage-related	12,322	3,958
Corporate debt	1,251	968
Automobiles	213	396
Credit cards	467	787
Small business administration	5,305	7,260
Insurance funding agreement	(105)	
Net unrealized gains (losses) on securities	$ 12,093	$ (1,824)

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 June 30, 2017. Our NEV ratio remains well above the minimum NCUA requirement of 2 percent. Overall, our NEV ratio at June 30, 2018, was 9.70 percent in the base case and 9.61 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 28 percent required by the NCUA.

A summary of Corporate One's NEV calculation as of June 30, 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 June 30, 2018*				
300 bps rise in rates	$ 316,393	9.61%	$ (3,669)	-1.15%
Base scenario	$ 320,062	9.70%		
100 bps decline in rates	$ 328,227	9.91%	$ 8,165	2.55%
As of June 30, 2017*				
300 bps rise in rates	$ 286,264	8.80%	$ (7,866)	-2.67%
Base scenario	$ 294,130	9.01%		

*300 and 200 bps declines did not apply in the interest rate environment present on June 30, 2018, and 300, 200 and 100 bps declines did not apply in the interest rate environment on June 30, 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 June 30, 2018, we had approximately $1.11 billion in cash and cash equivalents. This is significant given our total balance sheet of $3.29 billion and settlement and regular shares of $2.46 billion. In addition, we strive to buy securities with readily determined market values that can be sold or borrowed against to generate liquidity.

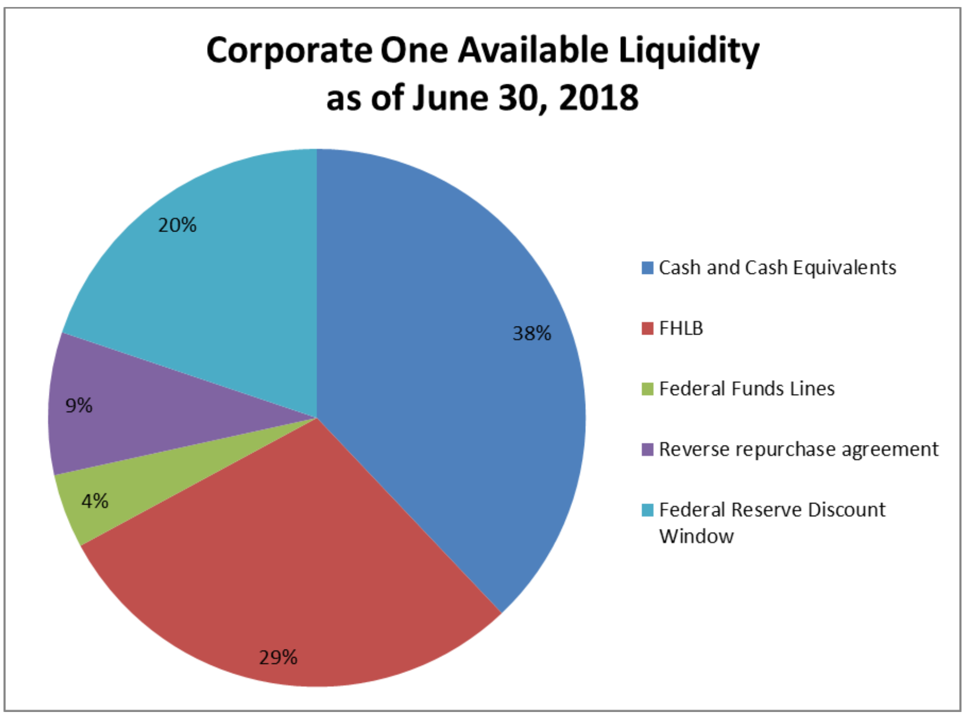
We also mitigate our liquidity risk by monitoring our top depositors. We have limits on the maximum any one credit union may deposit with us. By striving to diversify our shares and member base, we shield ourselves from the risk of sudden withdrawals by large depositors. In fact, as of June 30, 2018, our single largest depositor represented only seven 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 June 30, 2018, was approximately $1.81 billion. We maintain a line of credit with the Federal Home Loan Bank of Cincinnati (FHLB) of approximately $849.5 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 $849.5 million at June 30, 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 $578.4 million at June 30, 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 $3.53 billion as of June 30, 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		June 30, 2018		June 30, 2017
Cash and cash equivalents	$	1,105,081,755	$	1,171,116,711
Investments in financial institutions		43,134,000		42,886,000
Securities available for sale, at fair value		1,984,188,849		1,841,756,169
Loans		76,601,302		122,954,371
Accrued interest receivable		6,637,939		3,997,702
Goodwill		3,401,412		3,401,412
Intangible assets		8,024,139		10,478,639
Other assets		64,863,304		66,448,317
TOTAL ASSETS		3,291,932,700		3,263,039,321
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,461,806,547		2,669,442,184
Share certificates		501,871,614		256,527,002
Borrowed funds		-		36,000,000
Dividends and interest payable		430,361		126,115
Accounts payable and other liabilities		8,075,805		6,180,400
TOTAL LIABILITIES		2,972,184,327		2,968,275,701
Members' equity:				
Perpetual contributed capital		220,349,122		219,173,905
Retained earnings		87,306,594		77,413,714
Accumulated other comprehensive income (loss)		12,092,657		(1,823,999)
TOTAL MEMBERS' EQUITY		319,748,373		294,763,620
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	3,291,932,700	$	3,263,039,321

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income (unaudited)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Interest Income:		
Investments	$34,373,248	24,395,989
Loans	864,630	1,011,594
Total Interest Income	35,237,878	25,407,583
Dividend And Interest Expense:		
Shares	16,743,415	9,022,987
Borrowed funds and other	1,171,823	1,248,437
Total Dividend And Interest Expense	17,915,238	10,271,424
Net Interest Income	17,322,640	15,136,159
Net Settlement Income	6,622,454	6,552,535
Salaries and employee benefits	11,122,396	10,822,134
Amortization of intangibles expense	1,217,163	1,217,163
Office operations and occupancy expense	3,582,237	4,389,655
Other operating expenses	2,128,685	1,502,465
Total Operating Expenses	18,050,481	17,931,417
Net Gain on Financial Instruments:		
Gain (Loss) on sales of securities	1,042,961	2,221,466
Net Gain on Financial Instruments	1,042,961	2,221,466
Gain on sale of product line	0	2,072,329
Net Income	6,937,574	8,051,072

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (unaudited)

	Six Months Ended			
		June 30, 2018		**June 30, 2017**
Net Income	$	6,937,574	$	8,051,072
Other comprehensive income :				
Change in net unrealized gain on available-for-sale securities		2,894,571		18,935,036
Reclassification adjustment recognized in earnings for net gain from sales of securities		(1,042,961)		(2,221,466)
Total other comprehensive income		1,851,610		16,713,570
Comprehensive Income	$	8,789,184	$	24,764,642

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Members’ Equity For the Six Months Ended June 30, 2018

(unaudited)

	Perpetual Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Members' Equity
Balance At January 1, 2018	$ 219,441,538	$ 81,598,817	$ 10,241,047	$ 311,281,402
Net income		6,937,574		6,937,574
Other comprehensive income			1,851,610	1,851,610
Issuance of PCC	907,584			907,584
Dividends on PCC		(1,229,797)		(1,229,797)
Balance at June 30, 2018	$ 220,349,122	$ 87,306,594	$ 12,092,657	$ 319,748,373

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 June 30, 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. 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, a leading provider of ATM/Debit/Credit programs to credit unions, 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 June 30, 2018 and 2017, are summarized as follows (in thousands):

	June 30, 2018	June 30, 2017
Federal Home Loan Bank stock	$ 39,710	$ 39,710
Certificates of deposit	3,424	3,176
Total investments in financial institutions	$ 43,134	$ 42,886

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 June 30, 2018 and 2017, are as follows (in thousands):

June 30, 2018	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	$ 484,407	$ 496,729	$ 12,322
Asset-backed securities	608,367	601,582	(6,785)
Small business administration	492,891	498,196	5,305
Corporate debt securities	386,431	387,682	1,251
Total available-for-sale securities	$ 1,972,096	$ 1,984,189	$ 12,093

June 30, 2017	Amortized Cost	Fair Value	Net Unrealized Gain (Loss)
Available-for-sale securities:			
Mortgage-related securities	$ 635,386	$ 639,344	$ 3,958
Asset-backed securities	617,334	603,324	(14,010)
Small business administration	446,495	453,755	7,260
Corporate debt securities	144,365	145,333	968
Total available-for-sale securities	$ 1,843,580	$ 1,841,756	$ (1,824)

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 June 30, 2018 (in thousands).

Available-for-sale securities	Total Fair Value	Fair Value Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Fair Value Using: Significant Other Observable Inputs (Level 2)	Fair Value Using: Significant Unobservable Inputs (Level 3)
Mortgage-related securities-agency	$ 379,251		$ 379,251	
Mortgage-related securities-private	117,478		27,104	$ 90,374
Asset-backed securities:				
Student loans-FFELP	269,915		269,915	
Student loans-private	29,392		29,392	
Credit cards	176,325		176,325	
Automobiles	56,056		56,056	
Insurance funding agreement	69,894		69,894	
SBA securities	498,196		498,196	
Corporate debt securities	387,682	$ 318,037	69,645	
Total available-for-sale securities	$ 1,984,189	$ 318,037	$ 1,575,778	$ 90,374

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 and second quarters of 2018.

The following table (in thousands) details cumulative credit losses on other-than-temporarily impaired debt securities since 2008 through June 30, 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	667
Reduction due to increases in expected cash flows recognized in 2018	133
Cumulative credit losses on debt securities previously recognized in earnings at June 30, 2018	$ (53,804)

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 June 30, 2018 and 2017, Corporate One had securities held in safekeeping at the FHLB with fair values of approximately $868.1 million and $913.7 million, respectively, which provided a borrowing capacity of approximately $849.5 million and $905.5 million, respectively. At June 30, 2018, Corporate One had no overnight borrowings outstanding with the FHLB. At June 30, 2017, Corporate One had overnight borrowings outstanding with the FHLB for $36.0 million at a rate of 1.17 percent. These borrowings matured in July 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 June 30, 2018 and 2017, Corporate One had securities and commercial loans held in safekeeping at the Federal Reserve Bank with fair values of approximately $630.2 million and $470.9 million, respectively, which provided a borrowing capacity of approximately $578.4 million and $435.8 million, respectively. There were no amounts outstanding on the line of credit with the Federal Reserve Bank as of June 30, 2018 and 2017.

8. Capital Ratios

The NCUA Rules and Regulations, Part 704 provides the rules for governing corporate credit unions. The rules include the capital framework, definitions for various capital instruments, and the capital ratios a corporate credit union must meet. Periodic updates are made to this Rule, and as of December 22, 2017, certain amendments became effective, such as the definitions of retained earnings and Tier 1 capital, as well as the addition of a new definition for a retained earnings ratio.

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

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

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

*Moving Daily Average Net Assets (NCUA Rules and Regulations §704.2 allows for the deductions from Tier 1 capital to also be deducted from MDANA)
**Moving Daily Average Net Risk Weighted Assets
***As defined by the NCUA Rules and Regulations §704.2

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

	2018	2017
Retained earnings	$ 87,307	$ 77,414
Add: PCC	220,349	219,174
Add: retained earnings of acquired credit union*		869
Less: CUSO equity investments	(6,046)	(6,131)
Less: Excluded PCC**		(68,325)
Tier 1 Capital	301,610	$ 223,001
Add: Unamortized PIC	20	20
Add: Excluded PCC**		68,325
Tier 2 Capital	20	68,345
TOTAL CAPITAL	$ 301,630	$ 291,346

*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 June 30, 2018, MDANA and MDANRA were $3.43 billion and $884.6 million, respectively. As of June 30, 2017, MDANA and MDANRA were $3.67 billion and $1.12 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 June 30, 2018 and 2017, adjusted MDANA (used for the leverage ratios) was $3.43 billion and $3.60 billion, respectively.

The following summarizes Corporate One's capital ratios as of June 30, 2018 and 2017.

	June 30, 2018	June 30, 2017
Retained earnings ratio	2.54%	2.15%
Leverage ratio*	8.80%	6.19%
Tier 1 risk-based capital ratio	34.10%	19.94%
Total risk-based capital ratio	34.10%	26.05%

* NCUA Rules and Regulations §704.2 allows for the deductions from Tier 1 capital to also be deducted from MDANA for use in the Leverage ratio calculation. However, one such deduction was not built into the 5310 calculation and as a result our current 5310 reports a 8.78% leverage ratio.

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