Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

August 2018

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For further information, please contact:

Denise Brown, Executive Vice President and Chief Financial Officer, 866/692-6771 ext. 9367 or
Tammy Cantrell, Executive Vice President, Asset/Liability Management, 866/692-6771 ext. 9312.

Dear Members,

Please find attached to this letter our unaudited financial statements and regulatory ratios for August 2018. Our August 2018 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx.

For the eight months ended August 31, 2018, net income was $9.2 million, resulting in a retained earnings balance at August 31, 2018, of $89.0 million, an increase of $10.4 million since August 31, 2017. Our 2018 robust performance is the result of strong net interest income and controlled costs. While net income for the first eight months of 2018 was slightly lower than the same period of 2017, this is due solely to the $2.1 million gain on sale of certain debit and credit card contracts in 2017. Overall, net interest income and net settlement income for the eight months ended August 31, 2018, were greater than prior year, with operating expenses up only two percent. We have structured our balance sheet with 98 percent of our investable assets based on floating rate indices, and when rates rise, we recognize higher earnings on those assets. As a result of the current rising rate environment, we are recognizing an almost 17 percent increase in net interest income over the same period of the previous year, all while paying almost twice as much in dividends to our members during the first eight months of the year. In addition to increased net interest income, we actively manage our operating expenses by improving internal efficiencies, allowing us to invest in technology to help our members. Our ability to continually sustain strong earnings results in a steady growth in our retained earnings. Retained earnings are a major component of regulatory capital, and as of August 31, 2018, we had total regulatory capital of $303.0 million, which also includes $220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 9.16 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704.

Corporate One believes that one of the fundamental reasons that corporates exist is to provide liquidity to their members when they need it. We maintain a strong liquidity position with a focus on ensuring liquidity is available to our members. To ensure we maintain sufficient liquidity to help our members manage their liquidity position, we have structured our balance sheet to handle this type of share-balance fluctuation. Our strategy includes investing in highly liquid securities that can be sold. We continue to see spreads tighten on the securities we own, resulting in higher fair values than in prior years. Accordingly, our available-for-sale securities portfolio is in an unrealized gain position. In addition, we recognized a gain of $1.04 million on the sale of approximately $86.4 million worth of securities in the first eight months of 2018. The proceeds were used to fund the liquidity needs of our members. In addition, the securities we hold can be used as collateral at the FHLB, the Federal Reserve and other liquidity partners, resulting in access to approximately $1.78 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 dbrown@corporateone.coop or 866/692-6771, ext. 9367.

Sincerely,

Denise Brown
Executive Vice President and Chief Financial Officer

Consolidated Balance Sheets (unaudited)

CORPORATE ONE FEDERAL CREDIT UNION
CONSOLIDATED BALANCE SHEETS

		August 31, 2018		August 31, 2017
Assets				
Cash and cash equivalents	$	1,066,354,033	$	597,472,955
Investments in financial institutions		44,615,600		42,886,000
Securities available for sale, at fair value		1,896,670,018		1,837,394,730
Loans		123,312,189		137,096,426
Accrued interest receivable		6,469,977		4,135,714
Goodwill		3,401,412		3,401,412
Intangible assets		7,639,708		10,061,710
Other assets		68,442,967		60,490,766
TOTAL ASSETS		3,216,905,904		2,692,939,713
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,295,850,076		1,957,863,675
Share certificates		591,143,145		383,633,601
Borrowed funds		-		44,000,000
Dividends and interest payable		1,198,403		473,407
Accounts payable and other liabilities		7,186,446		5,647,911
TOTAL LIABILITIES		2,895,378,070		2,391,618,594
Members' equity:				
Perpetual contributed capital		220,349,122		219,173,905
Retained earnings		88,997,985		78,638,476
Accumulated other comprehensive income		12,180,727		3,508,738
TOTAL MEMBERS' EQUITY		321,527,834		301,321,119
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	3,216,905,904	$	2,692,939,713

Consolidated Statements of Income (unaudited)

	Eight Months Ended August 31, 2018	Eight Months Ended August 31, 2017
Interest Income:		
Investments	$46,655,290	$34,237,706
Loans	1,285,979	1,474,428
Total Interest Income	47,941,269	35,712,134
Dividend And Interest Expense:		
Shares	22,975,404	12,752,815
Borrowed funds and other	1,543,584	2,899,683
Total Dividend And Interest Expense	24,518,988	15,652,498
Net Interest Income	23,422,281	20,059,636
Net Settlement Income	8,865,289	8,821,885
Salaries and employee benefits	14,920,622	14,439,218
Amortization of intangibles expense	1,601,594	1,634,092
Office operations and occupancy expense	4,885,369	5,537,305
Other operating expenses	2,732,155	2,030,433
Total Operating Expenses	24,139,740	23,641,048
Net Gain on Financial Instruments:		
Gain on sales of securities	1,042,961	2,261,076
Net Gain on Financial Instruments	1,042,961	2,261,076
Gain on sale of product line		2,072,329
Net Income	9,190,791	9,573,878

Consolidated Statements of Comprehensive Income (unaudited)

	Eight Months Ended	
	August 31, 2018	**August 31, 2017**
Net Income	$ 9,190,791	$ 9,573,878
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	2,982,641	24,307,383
Reclassification adjustment recognized in earnings for net gain from sales of securities	(1,042,961)	(2,261,076)
Total other comprehensive income	1,939,680	22,046,307
Comprehensive Income	$ 11,130,471	$ 31,620,185

Consolidated Statement of Changes in Members' Equity for the Eight Months Ended August 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		9,190,791		9,190,791
Other comprehensive income			1,939,680	1,939,680
Issuance of PCC	907,584			907,584
Dividends on PCC		(1,791,623)		(1,791,623)
Balance at August 31, 2018	$ 220,349,122	$ 88,997,985	$ 12,180,727	$ 321,527,834

Capital Ratios and NEV

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

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

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

	Numerator	Denominator	Well capitalized	Adequately capitalized
Leverage ratio	Tier 1 Capital***	MDANA*	5.00%	4.00%
Tier 1 risk-based capital ratio	Tier 1 Capital***	MDANRA**	6.00%	4.00%
Total risk-based capital ratio	Total Capital***	MDANRA**	10.00%	8.00%
NEV ratio	Fair Value of Assets less Fair Value of Liabilities	Fair Value of Assets	2.00%	2.00%

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

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

	August 31, 2018
Retained earnings ratio	2.68%
Leverage ratio*	9.16%
Tier 1 risk-based capital ratio	32.97%
Total risk-based capital ratio	32.97%
NEV ratio	9.99%

* 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 9.14% leverage ratio.

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

8700 Orion Place
Columbus, OH 43240-2078

866/MyCorp1

www.corporateone.coop