Where Credit Unions Belong

Unaudited Financial Statements

October 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 October 2018. Our October 2018 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx.

For the ten months ended October 31, 2018, net income was $11.8 million, resulting in a retained earnings balance at October 31, 2018, of approximately $91.0 million, an increase of $11.2 million since October 31, 2017. Our 2018 robust performance is the result of strong net interest income and controlled costs. Overall, net interest income for the 10 months ended October 31, 2018, was greater than prior year, and net settlement income is comparable, with operating expenses up only four 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 a 16 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 10 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 research and development of fintech solutions 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 October 31, 2018, we had total regulatory capital of $305.0 million, which also includes $220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 9.67 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 recognized a gain of $2.19 million on the sale of approximately $311.3 million worth of securities in the first 10 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 $1.55 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

Assets		**October 31, 2018**		**October 31, 2017**
Cash and cash equivalents	$	670,618,630	$	867,739,894
Investments in financial institutions		47,639,600		43,134,000
Securities available for sale, at fair value		1,689,038,871		1,827,435,418
Loans		118,554,305		114,953,261
Accrued interest receivable		5,728,428		4,236,516
Goodwill		3,401,412		3,401,412
Intangible assets		7,261,478		9,651,506
Other assets		64,021,301		64,923,408
TOTAL ASSETS		2,606,264,025		2,935,475,415
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		1,779,064,310		2,184,414,049
Share certificates		492,835,325		387,298,017
Borrowed funds		-		49,000,000
Dividends and interest payable		729,083		315,463
Accounts payable and other liabilities		17,243,881		5,944,345
TOTAL LIABILITIES		2,289,872,599		2,626,971,874
Members' equity:				
Perpetual contributed capital		220,349,122		219,173,910
Retained earnings		90,997,227		79,835,129
Accumulated other comprehensive income		5,045,077		9,494,502
TOTAL MEMBERS' EQUITY		316,391,426		308,503,541
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	2,606,264,025	$	2,935,475,415

Consolidated Statements of Income (unaudited)

	Ten Months Ended	
	October 31, 2018	October 31, 2017
Interest Income:		
Investments	$58,653,687	$44,407,172
Loans	1,796,913	1,840,686
Total Interest Income	60,450,600	46,247,858
Dividend And Interest Expense:		
Shares	29,675,826	16,673,530
Borrowed funds and other	1,571,542	4,500,906
Total Dividend And Interest Expense	31,247,368	21,174,436
Net Interest Income	29,203,232	25,073,422
Net Settlement Income	11,118,938	11,123,244
Salaries and employee benefits	18,652,738	18,003,470
Amortization of intangibles expense	1,979,824	2,044,296
Office operations and occupancy expense	6,375,091	6,481,206
Other operating expenses	3,714,743	2,937,331
Total Operating Expenses	30,722,396	29,466,303
Net Gain on Financial Instruments:		
Gain on sales of securities	2,189,844	2,261,076
Net Gain on Financial Instruments	2,189,844	2,261,076
Gain on sale of product line	0	2,072,329
Net Income	11,789,618	11,063,768

Consolidated Statements of Comprehensive Income (unaudited)

	Ten Months Ended October 31, 2018	Ten Months Ended October 31, 2017
Net Income	$ 11,789,618	$ 11,063,768
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	(3,006,126)	30,293,147
Reclassification adjustment recognized in earnings for net gain from sales of securities	(2,189,844)	(2,261,076)
Total other comprehensive (loss) income	(5,195,970)	28,032,071
Comprehensive Income	$ 6,593,648	$ 39,095,839

Consolidated Statement of Changes in Members’ Equity for the Ten Months Ended October 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		11,789,618		11,789,618
Other comprehensive loss			(5,195,970)	(5,195,970)
Issuance of PCC	907,584			907,584
Dividends on PCC		(2,391,208)		(2,391,208)
Balance at October 31, 2018	$ 220,349,122	$ 90,997,227	$ 5,045,077	$ 316,391,426

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 October 31, 2018.

	October 31, 2018
Retained earnings ratio	2.88%
Leverage ratio*	9.67%
Tier 1 risk-based capital ratio	33.53%
Total risk-based capital ratio	33.53%
NEV ratio	12.12%

* 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 9.65% leverage ratio.

Corporate One
FEDERAL CREDIT UNION

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