



Where Credit Unions Belong

A large, white, five-pointed star is centered on a beige background. The background is decorated with several smaller, semi-transparent, light-brown stars of varying sizes and orientations, creating a subtle pattern.

Unaudited Financial Statements

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

Year to date through November 30, 2018, we have recognized \$12.4 million in net income. Over the last 12 months, we have added \$10.8 million to our retained earnings, which now exceed \$91.2 million. Our 2018 robust performance is the result of strong net interest income and conscientious spending. 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 11 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 November 30, 2018, we had total regulatory capital of \$305.3 million, which also includes \$220.3 million of permanent perpetual capital from our member credit unions. This capital resulted in a leverage ratio of 9.95 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 net gain of \$2.13 million on the sale of approximately \$316.7 million worth of securities in the first 11 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 \$1.6 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	November 30, 2018	November 30, 2017
Cash and cash equivalents	\$ 1,102,115,522	\$ 743,266,749
Investments in financial institutions	49,375,600	43,134,000
Securities available for sale, at fair value	1,713,452,948	1,796,992,070
Loans	88,586,369	108,280,360
Accrued interest receivable	6,650,470	4,769,057
Goodwill	3,401,412	3,401,412
Intangible assets	7,075,463	9,449,766
Other assets	64,013,040	62,952,337
TOTAL ASSETS	3,034,670,824	2,772,245,751
Liabilities and Members' Equity		
Liabilities:		
Settlement and regular shares	2,256,969,622	2,090,884,252
Share certificates	457,188,113	313,890,355
Borrowed funds	-	50,000,000
Dividends and interest payable	896,953	412,148
Accounts payable and other liabilities	6,545,435	5,984,373
TOTAL LIABILITIES	2,721,600,123	2,461,171,128
Members' equity:		
Perpetual contributed capital	220,349,122	219,173,910
Retained earnings	91,290,257	80,460,474
Accumulated other comprehensive income	1,431,322	11,440,239
TOTAL MEMBERS' EQUITY	313,070,701	311,074,623
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$ 3,034,670,824	\$ 2,772,245,751

Consolidated Statements of Income (unaudited)

	Eleven Months Ended	
	November 30, 2018	November 30, 2017
Interest Income:		
Investments	\$64,521,287	\$49,533,129
Loans	2,050,293	2,011,331
Total Interest Income	66,571,580	51,544,460
Dividend And Interest Expense:		
Shares	33,048,897	18,622,128
Borrowed funds and other	1,571,542	5,281,663
Total Dividend And Interest Expense	34,620,439	23,903,791
Net Interest Income	31,951,141	27,640,669
Net Settlement Income	12,298,302	12,235,941
Salaries and employee benefits	20,738,303	19,818,177
Amortization of intangibles expense	2,165,839	2,246,036
Office operations and occupancy expense	7,088,400	7,028,089
Other operating expenses	3,988,231	3,284,453
Total Operating Expenses	33,980,773	32,376,755
Net Gain on Financial Instruments:		
Gain on sales of securities	2,131,138	2,261,144
Net Gain on Financial Instruments	2,131,138	2,261,144
Gain on sale of product line	0	2,072,329
Net Income	12,399,808	11,833,328

Consolidated Statements of Comprehensive Income (unaudited)

	Eleven Months Ended	
	<u>November 30, 2018</u>	<u>November 30, 2017</u>
Net Income	\$ 12,399,808	\$ 11,833,328
Other comprehensive income :		
Change in net unrealized gain on available-for-sale securities	(6,678,587)	32,238,952
Reclassification adjustment recognized in earnings for net gain from sales of securities	(2,131,138)	(2,261,144)
Total other comprehensive (loss) income	(8,809,725)	29,977,808
Comprehensive Income	\$ 3,590,083	\$ 41,811,136

Consolidated Statement of Changes in Members' Equity for the Eleven Months Ended November 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		12,399,808		12,399,808
Other comprehensive loss			(8,809,724)	(8,809,724)
Issuance of PCC	907,584			907,584
Dividends on PCC		(2,708,368)		(2,708,368)
Balance at November 30, 2018	<u>\$ 220,349,122</u>	<u>\$ 91,290,257</u>	<u>\$ 1,431,322</u>	<u>\$ 313,070,701</u>

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 November 30, 2018.

November 30, 2018	
Retained earnings ratio	2.97%
Leverage ratio*	9.95%
Tier 1 risk-based capital ratio	33.59%
Total risk-based capital ratio	33.59%
NEV ratio	10.34%

* 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.



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