Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

Unaudited Financial Statements

December 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
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Dear Members,

Please find attached to this letter our unaudited financial statements and regulatory ratios for December 2018. Our December 2018 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx. Our 2018 annual audit is currently in process and we will provide our detailed Management's Discussion and Analysis, audited consolidated financial statements and footnotes in the 2018 Annual Report on our public website once complete.

Overall, 2018 proved to be another stellar year of earnings for Corporate One. During 2018, both Corporate One and our members benefitted from a rising rate environment. Our balance sheet is structured with 98 percent of our investable assets based on floating rate indices, and when rates rise, we recognize higher earnings on those assets. Because of the rising rate environment, we recognized a 13 percent increase in net interest income over the previous year, all while paying almost twice as much in dividends to our members during 2018. In addition, we recognize the need to help our members in this rapidly changing fintech environment, and while we actively manage our operating expenses and work to improve internal efficiencies, we recognized increased operating expenses over prior year as we invested in research and development of fintech solutions to help our members compete. As a result, we recognized $13.2 million in net income, and after paying our partner members $3.0 million in PCC dividends, we hold over $91.8 million in retained earnings. These strong earnings boosted our retained earnings ratio well over the 250 basis points benchmark set by the NCUA, allowing us to fully utilize the $221.2 million in PCC our members invested in us and provide value to our members.

As of December 31, 2018, we had total regulatory capital of $306.6 million and a leverage ratio of 10.17 percent, which exceeds the well-capitalized level of five percent for this ratio in NCUA's Regulation 704. Strong regulatory capital levels are important for several reasons. First, this capital protects member shares and certificates. Second, our capital position results in Corporate One exceeding the capital requirements of the NCUA. Strong capital ratios are important for our members when they perform their due diligence of Corporate One. Additionally, we continue to add new members; and new members cite our strong capital position as one of their requirements when looking for a corporate. Third, we believe that one of the fundamental reasons 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. Capital is essential for a corporate that is committed to providing liquidity to its members because the balance sheet is limited by the amount of capital a corporate maintains.

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. However, Corporate One maintains a strong liquidity position with a focus on ensuring liquidity is available to our members when they need it. 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 used as collateral at the FHLB, the Federal Reserve and other liquidity partners, resulting in access to approximately $1.6 billion in borrowing capacity. These securities can also be sold. In fact, we recognized a net gain of $2.13 million on the sale of approximately $316.7 million worth of securities in 2018. The proceeds were used to fund the liquidity needs of our members.

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		December 31, 2018		December 31, 2017
Cash and cash equivalents	$	673,614,806	$	1,074,272,832
Investments in financial institutions		50,367,600		43,134,000
Securities available for sale, at fair value		1,761,419,175		1,844,746,789
Loans		98,826,118		117,562,556
Accrued interest receivable		7,070,231		5,072,068
Goodwill		3,401,412		3,401,412
Intangible assets		6,883,247		9,241,302
Other assets		62,749,662		62,179,598
TOTAL ASSETS		2,664,332,251		3,159,610,557
Liabilities and Members' Equity				
Liabilities:				
Settlement and regular shares		2,017,939,886		2,534,923,916
Share certificates		329,626,981		257,573,868
Borrowed funds		-		50,000,000
Dividends and interest payable		352,914		201,347
Accounts payable and other liabilities		6,962,417		5,630,024
TOTAL LIABILITIES		2,354,882,198		2,848,329,155
Members' equity:				
Perpetual contributed capital		221,249,122		219,441,538
Retained earnings		91,809,283		81,598,817
Accumulated other comprehensive (loss) income		(3,608,352)		10,241,047
TOTAL MEMBERS' EQUITY		309,450,053		311,281,402
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	2,664,332,251	$	3,159,610,557

Consolidated Statements of Income (unaudited)

	Year Ended	
	December 31, 2018	**December 31, 2017**
Interest Income:		
Investments	$70,423,871	$54,889,219
Loans	2,353,879	2,204,184
Total Interest Income	72,777,750	57,093,403
Dividend And Interest Expense:		
Shares	36,487,587	20,751,239
Borrowed funds and other	1,582,276	5,747,270
Total Dividend And Interest Expense	38,069,863	26,498,509
Net Interest Income	34,707,887	30,594,894
Net Settlement Income	13,423,636	13,335,622
Salaries and employee benefits	22,467,057	21,312,872
Amortization of intangibles expense	2,358,055	2,454,500
Office operations and occupancy expense	7,813,913	7,603,766
Other operating expenses	4,376,162	3,703,335
Total Operating Expenses	37,015,187	35,074,473
Net Gain on Financial Instruments:		
Total other-than-temporary impairment losses		(76,565)
Portion of loss recognized in other comprehensive income		7,895
Gain on sales of securities	2,131,138	2,261,144
Net Gain on Financial Instruments	2,131,138	2,192,474
Gain on sale of product line		2,072,329
Net Income	$13,247,474	$13,120,846

Consolidated Statements of Comprehensive Income (unaudited)

	Year Ended	
	December 31, 2018	**December 31, 2017**
Net Income	$ 13,247,474	$ 13,120,846
Other comprehensive income :		
Change in net unrealized (loss) gain on available-for-sale securities	(11,718,261)	30,971,090
Reclassification adjustment recognized in earnings for other-than-temporary declines in values of securities		68,670
Reclassification adjustment recognized in earnings for net gain from sales of securities	(2,131,138)	(2,261,144)
Total other comprehensive (loss) income	(13,849,399)	28,778,616
Comprehensive (Loss) Income	$ (601,925)	$ 41,899,462

Consolidated Statement of Changes in Members' Equity for the Year Ended December 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		13,247,474		13,247,474
Other comprehensive loss			(13,849,399)	(13,849,399)
Issuance of PCC	1,807,584			1,807,584
Dividends on PCC		(3,037,008)		(3,037,008)
Balance at December 31, 2018	$ 221,249,122	$ 91,809,283	$ (3,608,352)	$ 309,450,053

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 December 31, 2018.

	December 31, 2018
Retained earnings ratio	3.04%
Leverage ratio*	10.17%
Tier 1 risk-based capital ratio	33.66%
Total risk-based capital ratio	33.66%
NEV ratio	11.70%

* 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 10.15% leverage ratio.

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