Corporate One
FEDERAL CREDIT UNION

Where Credit Unions Belong

# Unaudited Financial Statements

February 2019

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**For further information, please contact:**

Denise Brown, Executive Vice President, Chief Financial Officer, 866/692-6771 ext. 9367 or
Tammy Cantrell, Executive Vice President, Chief Product Strategist, 866/692-6771 ext. 9312.

Dear Members,

Please find attached to this letter our unaudited financial statements and regulatory ratios for February 2019. Our February 2019 5310 report can be found at http://www.corporateone.coop/About-Us/Due-Diligence.aspx.

As of February 28, 2019, we had total regulatory capital of $308.6 million and a leverage ratio of 10.50 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.

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 $1.7 billion in borrowing capacity.

We have added $11.2 million to our retained earnings over the last 12 months, which now exceeds $93.8 million, resulting in a retained earnings ratio of 3.19 percent. More details regarding these ratios can be found on page eight of this report.

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, Chief Financial Officer

# Consolidated Balance Sheets (unaudited)

| Assets | | February 28, 2019 | | February 28, 2018 |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 1,436,691,565 | $ | 1,143,467,099 |
| Other short term investments | | 29,771,475 | | 49,771,806 |
| Investments in financial institutions | | 48,615,600 | | 43,134,000 |
| Securities available for sale, at fair value | | 1,863,163,061 | | 1,994,113,869 |
| Loans | | 71,895,852 | | 78,743,953 |
| Accrued interest receivable | | 7,287,112 | | 5,783,466 |
| Goodwill | | 3,401,412 | | 3,401,412 |
| Intangible assets | | 6,517,418 | | 8,844,547 |
| Other assets | | 63,148,525 | | 61,543,339 |
| TOTAL ASSETS | | 3,530,492,020 | | 3,388,803,491 |
| **Liabilities and Members' Equity** | | | | |
| Liabilities: | | | | |
| Settlement and regular shares | | 2,870,581,605 | | 2,593,598,002 |
| Share certificates | | 312,549,019 | | 396,860,389 |
| Borrowed funds | | - | | 74,000,000 |
| Dividends and interest payable | | 1,040,577 | | 652,920 |
| Accounts payable and other liabilities | | 28,079,813 | | 6,227,215 |
| TOTAL LIABILITIES | | 3,212,251,014 | | 3,071,338,526 |
| Members' equity: | | | | |
| Perpetual contributed capital | | 221,249,122 | | 220,349,122 |
| Retained earnings | | 93,860,295 | | 82,690,023 |
| Accumulated other comprehensive income | | 3,131,589 | | 14,425,820 |
| TOTAL MEMBERS' EQUITY | | 318,241,006 | | 317,464,965 |
| TOTAL LIABILITIES AND MEMBERS' EQUITY | $ | 3,530,492,020 | $ | 3,388,803,491 |

# Consolidated Statements of Income (unaudited)

| | Two Months Ended | |
|---|---|---|
| | February 28, 2019 | February 28, 2018 |
| Interest Income: | | |
| Investments | $14,080,241 | $10,442,261 |
| Loans | 441,362 | 307,020 |
| Total Interest Income | 14,521,603 | 10,749,281 |
| Dividend And Interest Expense: | | |
| Shares | 7,286,704 | 4,466,443 |
| Borrowed funds and other | 381,279 | 1,050,281 |
| Total Dividend And Interest Expense | 7,667,983 | 5,516,724 |
| Net Interest Income | 6,853,620 | 5,232,557 |
| Net Settlement Income | 2,239,985 | 2,040,641 |
| Salaries and employee benefits | 3,993,665 | 3,671,374 |
| Amortization of intangibles expense | 365,829 | 396,755 |
| Office operations and occupancy expense | 1,422,711 | 1,171,622 |
| Other operating expenses | 544,663 | 737,725 |
| Total Operating Expenses | 6,326,868 | 5,977,476 |
| Net Gain on Financial Instruments: | | |
| Gain on sales of securities | | 150,824 |
| Net Gain on Financial Instruments | | 150,824 |
| Net Income | $2,766,737 | $1,446,546 |

## Consolidated Statements of Comprehensive Income (unaudited)

| | Two Months Ended | | | |
|---|---|---|---|---|
| | **February 28, 2019** | | **February 28, 2018** | |
| Net Income | $ | 2,766,737 | $ | 1,446,546 |
| Other comprehensive income : | | | | |
| Change in net unrealized gain on available-for-sale securities | | 6,739,941 | | 4,335,597 |
| Reclassification adjustment recognized in earnings for net gain from sales of securities | | | | (150,824) |
| Total other comprehensive income | | 6,739,941 | | 4,184,773 |
| Comprehensive Income | $ | 9,506,678 | $ | 5,631,319 |

# Consolidated Statement of Changes in Members' Equity for the Two Months Ended February 28, 2019 (unaudited)

| | Perpetual Contributed Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) Income | Total Members' Equity |
|---|---|---|---|---|
| Balance At January 1, 2019 | $ 221,249,122 | $ 91,809,283 | $ (3,608,352) | $ 309,450,053 |
| Net income | | 2,766,737 | | 2,766,737 |
| Other comprehensive income | | | 6,739,941 | 6,739,941 |
| Dividends on PCC | | (715,725) | | (715,725) |
| Balance at February 28, 2019 | $ 221,249,122 | $ 93,860,295 | $ 3,131,589 | $ 318,241,006 |

## 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 February 28, 2019.

| | February 28, 2019 |
|---|---|
| Retained earnings ratio | 3.19% |
| Leverage ratio* | 10.50% |
| Tier 1 risk-based capital ratio | 34.04% |
| Total risk-based capital ratio | 34.04% |
| NEV ratio | 9.09% |

* 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 10.48% leverage ratio.

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

8700 Orion Place
Columbus, OH 43240-2078

866/MyCorp1

**www.corporateone.coop**