




CARIBE FEDERAL
CREDIT UNION

Annual Report 2007

Reporte Anual 2007



Caribe Federal  Servicio con calor humano

PROGRAM

1. Registration 7:30 A.M. - 11:30 A.M.

2. Business Agenda 9:00 A.M. - 11:30 A.M.

a. Call to Order

b. Ascertain Quorum

c. Presentation of Head Table and Special Guests

***d. Invocation and Remembrance of Deceased
Members***

e. National & Commonwealth Anthems

f. Administrative Announcements

g. Approval of Minutes of the last Annual Meeting

h. President's Report

i. Treasurer's Report

j. Credit Committee's Report

k. Supervisory Committee's Report

l. Nominations Committee's Report

m. Elections

o. Old Business

p. New Business

q. Adjournment

3. Lunch 11:30 A.M. - 1:00 P.M.

4. Social Activity 12:00 Noon - 6:00 P.M.

WELCOME
TO THE FIFTY SIXTH ANNUAL MEETING OF
CARIBE FEDERAL CREDIT UNION

HELD THIS 8TH DAY OF JUNE 2008
AT THE WYNDHAM RIO MAR BEACH RESORT & GOLF CLUB
RIO GRANDE, PUERTO RICO

In the occasion of our 56th Annual Meeting we take special pleasure in greeting you as we meet again, to fulfill our legal regulations as a federal credit union and to share, as co-workers, in the examination of our yearly, financial and service report. Paramount among our responsibilities at this time, is the election of a Board of Directors, which will direct the activities of the credit union in accordance with the law.

Your Credit Union is growing in size, services and technology. We must keep up with the times while striving to offer our members, the best possible service in the most favorable terms.

Thank you for joining us in celebrating Caribe Federal Credit Union's 57th Anniversary.

Board of Directors
Caribe Federal Credit Union

Services Offered by CFCU

Regular Share Account
Share Certificate
Share Draft/Checking Account
Christmas Club Account
Cari Kid Share Saving's Account
Commercial Account

Personal Unsecured Loans
Personal Fully Secured Loan
Line of Credit
Business Loans
New Auto Loan
Used Auto Loan
Auto Transfer Loan
Auto Balloon
Boat Loan
Motorcycle Loan
Emergency Loan
IRA Loan
MasterCard
Reward Points
Student MasterCard
Conventional Mortgage Loan
Personal Mortgage Loan
Home Equity Loan
Land Loan
Construction Loan

Check Cashing
Money Orders
Traveler's Checks
Marbetes
Occasion Checks
Teller Station
Auto Bank
Direct Deposit
Wire Transfers

International ATM Card
Telecaribe
Caribe Bill Pay-e
Home Financial Services

Mission

To satisfy our members financial needs.

Vision

Be the best option in financial products and services.

Supplementary Plans

Benefit Solution Group
Triple S
-Dental Plan
-Personal and Commercial
 Products
Universal Life
-IRA
-College Fund

CUNA
-Members Financial Assistance
-Life Insurance Plan

Know Your Officials

Board of Directors

Mr. Emilio M. Colón	President	Retired, USACE
Mr. Rafael A. Martínez	First Vice President	Retired, ATF
Mr. Victor L. Rosario	Second Vice President	Retired, OPM
Mr. Wilfred Benítez	Treasurer	Retired, SBA
Mrs. Celia Ruíz	Secretary	Retired, USDE
Mr. Heriberto J. Martínez	Member at Large	Retired, Cons. Farm Services
Mr. Iván O. Puig	Member at Large	Retired, USPS
Mr. Héctor R. Martínez	Member at Large	Retired, FEMA
Mr. Juan O. Rodríguez	Member at Large	HUD
Mr. Alexis E. Agostini	Member at Large	Retired, Cons. Farm Services
Mr. Porfirio Ríos	Member at Large	Retired, US Trustee

Supervisory Committee

Mr. Carlos E. O'Neill	Chairperson	EPA
Mr. Wouter Bordewyk	Member	SSA
Mr. Luís E. Santos	Member	EPA
Mr. Ramón A. Negrón	Member	Ex-BOD ICPR FCU
Mr. Manuel Casellas	Member	Ex-BOD SJFCU

Credit Committee

Mr. Juan M. Masini	Chairperson	Lawyer
Mrs. Celia Ruíz	Member	Retired USDE
Mrs. Heidi Miranda	Member	Lawyer
Mrs. Melanie P. Rodríguez	Member	Lawyer

Know Our Staff

Administrative Division

Jorge M. Vadell	General Manager
Jorge R. Menéndez	Deputy General Manager
Carmen Ortiz	Compliance Officer
Dánely Pérez	Marketing Officer
Minerva Pérez	Administrative Assistant BOD

Finance Division

Demarys H. Crespo	Finance Manager
Linnette Martínez	General Accountant
Vanessa Ferrero	Accountant
Mayanín Cuadrado	Accountant

Operations Division

Sol M. Morales	Operations Manager
Elizabeth Espinet	Confidential Secretary
Jorge Incle	Quality Control Specialist
Diana I. Pérez	Credit Card Officer
David Robinson	Branch Coordinator
Carmen L. Díaz	General Office Clerk
Michael Berríos	General Office Clerk
José Dedos	General Office Clerk
Luis Nieves	Messenger
Sheila Ruíz	Receptionist
Sylvia Jiménez	Receptionist

Hato Rey Branch

Mark Flores	Branch Manager
Alma Gómez	Assistant Branch Manager
Vangie Hernáiz	Sales and Services Executive
Lilliam Ginés	Sales and Services Executive
Linoshka L. Pomales	Sales and Services Executive
Ricardo T. Gil	Sales and Services Executive
Zayra Maldonado	Sales and Services Executive
Gladys Morales	Sales and Services Executive
Claryvelise González	Sales and Services Executive
Steven Bermúdez	Sales and Services Executive
Edith Lorenzo	Sales and Services Executive
Verónica Caldera	Sales and Services Executive
Yira M. Suárez	Teller
Ana R. González	Teller
Rubelisse Quiñones	Teller
Diana Robles	Teller
Adriana Jiménez	Teller
Denise Ramos	Teller
Carlos Pagán	Teller

Buchanan Branch

Eric Vega	Branch Services Supervisor
Alexis Vega	Teller

San Juan Branch

Jennifer Avilés	Branch Services Supervisor
Lilian Pérez	Teller

Virtual Branch

Jenny Brito	Supervisor
Milagros Vélez	Sales and Services Executive
Michelle Burgos	Sales and Services Executive
Alvin Hernández	Sales and Services Executive
Jesiree Méndez	Sales and Services Executive
Liza V. Rodríguez	Sales and Services Executive
Melissa Vázquez	Sales and Services Executive

Loan Department

José E. Febres
Emma Y. Márquez
Nereida Rivera
Brizia Aponte
Irma M. Garcia
Daisy I. Nieves

Loan Manager
Mortgage Processing Specialist
Mortgage Processing Specialist
Loan Clerk
Collection Officer
Collection Officer

ITS Department

Hilda Buritica
Angel R. Escudero
Manuel Beras
Luis Vázquez
Georgie Mera

IT Manager
Network Administrator
IT Programmer Specialist II
IT Programmer Specialist I
IT Help Desk Specialist

Business Consortium Alliance

Thomas Johnson
Rafael Hernández
Brenda Angueira

President
Relationship Manager
Executive Assistant



Board of Directors Caribe Federal Credit Union

From left to right:

Seated: Celia A. Ruíz, Wilfred Benítez, Víctor L. Rosario,
Emilio M. Colón, Rafael A. Martínez, Heriberto J. Martínez,
Juan O. Rodríguez, Héctor R. Martínez, Alexis E. Agostini,
Iván O. Puig and Porfirio Ríos.

MINUTES OF THE 55th ANNUAL MEETING JUNE 24, 2007

The 55th Annual Meeting of Caribe Federal Credit Union (CFCU) was held at the Wyndham Río Mar Beach Hotel, Río Grande, P.R., on Sunday, June 24, 2007.

ADMINISTRATIVE ANNOUNCEMENTS

Second Vice-President Víctor L. Rosario presented the administrative information concerning the annual meeting and social activity to all the members present, followed by a raffle for the “early bird” attendees and senior citizens.

QUORUM DETERMINATION AND CALL TO ORDER:

The Secretary of the Board of Directors, Mrs. Celia A. Ruíz, certified that quorum was established with 296 members present. Chairman Emilio M. Colón called the meeting to order at 9:00 A.M. with a warm and heartfelt welcome to everyone present at the annual meeting.

After delivery of the invocation and the dedication of the 55th Anniversary to all the members present by former President Jorge Darío Ortíz, the National Anthems of the Commonwealth of Puerto Rico and the United States of America were played to the reverence of all those present. A moment of silence followed in memory of the members who passed away.

MINUTES:

The Chairman announced that the Annual Meeting minutes from the previous year’s were presented and approved.

CHAIRMAN’S REPORT

Chairman of the Board Emilio M. Colón, expressed his appreciation to all the members and special guests for their early attendance and wished everyone a positive experience at the annual meeting. Chairman Colón presented in power point, CFCU’s 2006 financial situation as well as its current position regardless of the global economic problems that many financial institutions are enduring. He informed on the credit union’s business plan and on the measures and actions plans that are being carried out by the Board of Directors, committees and CFCU employees in order to better serve the members. The Chairman highlighted the most important strategies and objectives of the strategic plan and on the mergers and alliances of year 2006. He proudly announced the creation of Business Consortium Alliance, Inc. (BCA) as a wholly owned subsidiary of CFCU. BCA is a credit union service organization that will add value to the members of CFCU with new product lines and strategic alliances. He also informed on CFCU’s membership growth, the dividends granted during the year and on the expenses and assets. The Chairman informed that the credit union’s focus and goal is to move towards: a member culture service, better communication, strategic alliances, cost reduction, new products, additional branches throughout the island and the increase of assets.

Chairman Colón concluded his report presenting the statistics of a customer satisfaction survey performed on December 2005, to measure CFCU’s services so that CFCU can continue to improve products and services.

A special recognition to the members who have the most amounts of products and services followed.

TREASURER'S REPORT

Treasurer Wilfred Benítez welcomed everyone present. He began his presentation with CFCU's financial situation for year 2006, including a comparison of the year 2005 financial situation. He also indicated that the financial statements have been available since May 8, 2007 for review as requested by the members. The Treasurer expressed that year 2006 had been a year of great challenges especially for the credit unions. There has been a significant increase in the cost of living and CFCU has also been affected by the increase of its operational expenses.

He informed on Puerto Rico's economy and said that CFCU has established alliances that has resulted in the merges of ICPR Federal Credit Union and the San Juan Federal Credit Union with CFCU. Another strategy was the alliance with the "Liga de Artes de San Juan" association, which has contributed, in CFCU's strong financial situation at the end of year 2006, ending with an increase of 19 million in loans.

He discussed the specifics relating to the growth in investments, loans, capital, and the solid financial situation of CFCU. He informed that as of 12/31/06 the total assets of CFCU were \$182 million, an increase of \$13 million when compared to the previous year.

The Liabilities and Membership savings amount to \$152.5 million, an increase of \$9.5 million. The Capital & Reserve amounts to \$29.6 million, an increase of 3.4 million, due to the net income of year 2006 and the merge with ICPR Federal Credit Union and San Juan Federal Credit Union.

The Statement of Income shows the amount of interest on loans for \$9 million, an increase of \$1.6 million when compared to year 2005.

The dividend paid over shares and shares certificates where the most highest paid in the history of CFCU, which amounts to \$3.8 million; \$1.2 million more when compared to last year.

The operational expenses amounted to \$3.8 million in year 2006 with an increase of \$412 thousand due to additional human capital, audits, professional services and building utilities such as electricity.

The Treasurer concluded his report informing that the distribution of 2006 Revenue breakdown was as follows: 40% for dividends, 39% for operational expenses, 4% for a provision for charged off accounts and 17% was net income.

CREDIT COMMITTEE REPORT

Credit Committee Chairman Juan M. Masini-Soler greeted and welcomed the members of the Annual Meeting. Mr. Masini-Soler introduced the members of the Credit Committee and Loan Division, and recognized their performance throughout the year. He then presented the statistics on the loan approvals and rejections for year 2006. He stated that a total of 3,706 loan applications were considered, 27% more over last year, of which 3,224 were favorable approved. Loans approved totaled \$90,859,519, of which \$38,538,604 represents personal loans, including emergency loans and lines of credit; \$22,928,167 in auto, motorcycle and boat loans; \$8,630,667 in Master Cards; and \$20,762,081 in mortgage loans. Mr. Masini-Soler informed that the Credit Committee and CFCU's Management are constantly monitoring the changes in the market in order to provide members with the best products at the lowest cost.

SUPERVISORY COMMITTEE REPORT

Supervisory Committee Chairman, Carlos E. O'Neill, introduced the members of the committee and informed that according to the Credit Union Guide there are two essential goals: a) to assure that Management's financial reporting objective are met and, b) that the practices and procedures safeguard members' assets.

He explained that an annual audit of the financial statements is one of the methods used toward the safeguard of members' funds. He commented that to satisfy the Supervisory Committee audit requirements, the Committee contracts a Certified Public Accountant firm. The Firm - Zayas, Morazzani & Co. conducted our external audit for year 2005 and 2006. Accordingly, the firm examined the operations of the Caribe Federal Credit Union (CFCU) for the years ended December 31, 2005 and 2006 with excellent results. The examiners concluded that the financial statements present fairly, in all material respects, the financial position of CFCU and the results of the operations and its cash flows in conformity with Generally Accepted Accounting principles (GAAP) in the United States of America.

The Supervisory Committee Chairman also informed that during this year, the Committee was focused in securing the services of a Certified Public Accounting firm, Puerto Rico CPA, Group as our internal auditor and technology advisor. He indicated that the committee is continuously monitoring the interventions of CFCU's compliance officer.

Additionally, during this past year, the Committee has monitored the two mergers and the creation of a CUSO previously reported by our Chairman Emilio Colón. Special attention was given to the data processing center to ascertain that the new data from our new members was transferred with accuracy and precision. Both were completed successfully. The Committee and the internal auditor have continued to monitor the activities of the department of Electronic Data Processing (EDP), which is considered to be the heart of CFCU's accounting system. Until this day, Caribe Federal Credit Union has the latest software and hardware to provide for the financial accounting needs; and continues to provide secure electronic banking thru the Internet for the convenience of our members.

NEW PRODUCTS & SERVICES

Loan Manager José E. Febres presented in power point CFCU's products and services.

NOMINATIONS COMMITTEE REPORT

Second Vice-president Víctor L. Rosario excused Nomination's Committee Chairperson Myrna Pére who could not attend to the annual meeting due to illness of a family member. He informed on the new election process as follows: Option A2 - In-person elections; nominating committee and nominations by petition. The new election process states that the nominating committee files its nominations with the secretary of the credit union at least 90 days prior to the annual meeting, and the secretary notifies in writing all members eligible to vote at least 75 days prior to the annual meeting; and that nominations for vacancies may also be made by petition, said document should be accompanied with the signature of 1% of the active members with a minimum of 20 and a maximum of 500. The written notice must indicate that the election will not be conducted by ballot and there will be no nominations from the floor when there is only one nominee for each position to be filled. A brief statement of qualifications and biographical data in a form approved by the board of directors will be included for each nominee submitted by the nominating committee with the written notice to all eligible members. Each nominee by petition must submit a similar statement of qualifications and biographical data with the petition. The written notice must state the closing date for receiving nominations by petition. In all cases, the period for receiving nominations by petition must extend at least 30 days from the date that the petition requirement and the list of nominating committee's nominees are mailed to all members. To be effective, a signed certificate must accompany such nominations from the nominee or nominees stating that they are agreeable to nomination and will serve if elected to office. Such nominations must be filed with the secretary of the Board of Directors at least 40 days prior to the annual meeting and the secretary will ensure that nominations by petition along with those of the nominating committee are posted in a conspicuous place in each credit union office at least 35 days prior to the annual meeting.

Nominations cannot be made from the floor unless insufficient nominations have been made by the nominating committee or by petition to provide for one nominee for each position to be filled or circumstances prevent the candidacy of the one nominee for a position to be filled. When only one member is nominated for each position to be filled, the chair may take a voice vote or declare each nominee elected by general consent or acclamation at the annual meeting.

DECLARATION OF NOMINEES

Mr. Víctor L. Rosario declared that since there were four nominees for the four positions to be filled and that there were no nominations made by petition: Mr. Emilio M. Colón, Mr. Wilfred Benítez, Mr. Juan O. Rodríguez and Mr. Alexis E. Agosinti are the candidates to fill the vacant positions of the Board of Directors.

NEW BUSINESS

Member Nelsa Echevarría expressed her appreciation to the Board of Directors who has incorporated several ex-ICPR Federal Credit Union BOD members to various CFCU committees after the merge and also for the invitation to the annual meeting as special guests.

Member Raúl González Díaz expressed his support for the Municipal Police of San Juan and all the administrative divisions who daily fight crime in Puerto Rico. He presented a motion to approve that all the Police and Security divisions who serve in communities and other areas of San Juan be accepted to join CFCU's field of membership. Chairman Emilio M. Colón explained that through the association "Liga de Artes de Estudiantes de San Juan" they could join CFCU's membership at any time. The Board of Directors agreed that the information would be provided to this group of Policemen.

Member Alberto Ruíz commented that he had recently been in Florida traveling and that an employee named Lissette Díaz had helped him solve a problem and that he was very satisfied with the service at CFCU.

Member Eddie González asked about the status of the Caguas Branch. Chairman Colón informed that Management is currently working with the business plan that includes a study on future sites for CFCU branches including the Caguas area.

Member Rafael Del Río indicated that he had noticed that this year CFCU did not have exhibitors as in past annual meetings. Chairman Colón explained that the reason for not having the exhibitors this year was based on the feedback received by the exhibitor representatives who expressed that that not many members visit the exhibitors and that as soon as the social activity began they had no attendance at all therefore, it was not resulting effective for them.

Member Carmen Padilla commented that she had made arrangements to stay at the Wyndham during the weekend of the annual meeting with the purpose to celebrate the "Noche de San Juan" and when she tried to go the beach on Saturday night for the traditional dive in the water, access to the beach was not allowed that night because the turtles were expected to come to shore to lay their eggs. She advised that next time the members be informed of this situation ahead of time. Chairman Colón informed that he had been surprised with the situation as everyone was and that the hotel did not inform prior to the activity that Natural Resources prohibits the use of the beach at night during the nesting periods of the sea turtles however, he encouraged everyone to obey the regulation because the preservation of these endangered species are at stake.

Member Francisco Fuñier recommended that next year additional rooms be blocked for CFCU members

because when he tried to make his reservation two months ago, there were no rooms available. The Board of Directors took note of the recommendation.

Member Charles González congratulated the members of the Board of Directors for their excellent work. He pointed out that he did not agree with an expression used by the Treasurer during his report that said that Puerto Rico was apparently in a recession. Mr. González indicated that the term apparently was incorrect that Puerto Rico is in fact experiencing a recession and that many people are leaving the island to live in the United States and that next year many will be filing for bankruptcy. Mr. González also asked about the poor assistance early in the morning to the meeting and that he did not receive information about CFCU providing transportation to the annual meeting.

Chairman Colón explained that the reason that the Treasurer used the term “apparently” was to avoid any political connotation. Regarding the attendance to the annual meeting the Chairman explained that the trend is that the meeting is usually initiated with about 300 members and as members continue to arrive thereafter, the numbers of attendees increase. Chairman Colón explained that the transportation service to the annual meeting was not offered because last year the bus was more than half empty.

Member Josefina Collazo commented that Saturday’s cocktail activity should have had more formality. Mrs. Collazo also suggested that other hotels be considered in future annual meetings. The BOD said that the recommendation would be studied.

Member William Ortíz expressed the difficulty that he experiences when calling CFCU for customer service and that he has to make long lines when he visits the main branch. Chairman Colón indicated that Management is currently working on a plan to minimize these situations.

Member Rosita Espada suggested that the annual meeting be held at El Conquistador Hotel. Chairman Colón said that the recommendation would be evaluated.

Member Rosa Hernández recommended that the reports presented by the Board of Directors be available to the members so that they can study them. The Board of Directors will study the recommendation.

Member Eric Cordero presented a motion to adjourn the meeting. The motion was seconded and approved without opposition.

ADJOURNMENT:

There being no further business or new business to discuss, the meeting was adjourned at 11:40 AM.

Raffles, lunch and a social activity followed.

CARIBE FEDERAL CREDIT UNION
Consolidated Financial Statements

December 31, 2007 and 2006
(With Independent Auditors' Report Thereon)

ZAYAS, MORAZZANI & CO.
CERTIFIED PUBLIC ACCOUNTANTS

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San Juan, Puerto Rico 00936-6225
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ZAYAS, MORAZZANI & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

The Board of Directors
Caribe Federal Credit Union:

We have audited the accompanying consolidated statements of financial condition of Caribe Federal Credit Union as of December 31, 2007 and 2006, and the related statements of income, members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Credit Union's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caribe Federal Credit Union as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidated information in Schedules A and B is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities. Such information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

April 23, 2008

Zayas, Morazzani & Co.

Stamp. No. 2324790 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Financial Condition
December 31, 2007 and 2006

<u>Assets</u>	<u>2007</u>	<u>2006</u>
Cash and cash equivalents (note 1)	\$ 10,510,999	4,550,158
Certificates of deposits (note 1)	900,000	2,200,000
Investments available for sale (note 2)	5,532,350	3,732,889
Investments held to maturity (note 2)	46,918,675	74,219,263
Loans to members, net (notes 1, 3 and 11)	126,215,039	89,416,149
Accrued interest receivable (note 14)	1,204,235	1,139,859
Prepaid expenses	381,275	205,203
Property and equipment, net (notes 1 and 4)	6,439,792	6,401,358
NCUSIF deposit (note 9)	1,176,618	1,117,045
Collections (note 1)	77,619	77,619
Other assets	<u>96,804</u>	<u>78,967</u>
Total assets	\$ <u>199,453,406</u>	<u>183,138,510</u>
<u>Liabilities and Members' Equity</u>		
<u>Liabilities</u>		
Savings (shares) accounts (note 5)	\$ 162,898,765	151,654,095
Accruals and other liabilities (note 6)	<u>5,540,820</u>	<u>1,843,910</u>
Total liabilities	<u>168,439,585</u>	<u>153,498,005</u>
Commitments and contingencies (notes 6, 7, 10, 11 and 14)		
<u>Equity</u>		
Members' equity:		
Appropriated statutory (note 7)	3,811,746	3,811,746
Unappropriated	27,169,725	25,857,206
Accumulated other comprehensive income (note 2)	<u>32,350</u>	<u>(28,447)</u>
Total equity	<u>31,013,821</u>	<u>29,640,505</u>
Total liabilities and members' equity	\$ <u>199,453,406</u>	<u>183,138,510</u>

See independent auditors' report and
accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Income
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Interest income:		
Interest and fees on loans	\$ 8,010,211	5,833,781
Interest on investments	<u>3,757,484</u>	<u>3,238,397</u>
	11,767,695	9,072,178
Dividends expense:		
Savings (shares) accounts (note 5)	<u>4,908,036</u>	<u>3,872,477</u>
Net interest income	6,859,659	5,199,701
Provision for loan losses (notes 1 and 3)	<u>(1,190,519)</u>	<u>(360,000)</u>
Net interest income after provision for loan losses	<u>5,669,140</u>	<u>4,839,701</u>
Operating expenses:		
Compensation and benefits	2,184,867	1,641,549
Directors' meetings and seminars	70,937	55,018
Occupancy and utilities	158,257	130,262
Communications	206,496	147,479
Repair and maintenance	54,557	41,127
Office supplies	70,237	53,704
Security	28,768	29,766
Insurance	208,142	204,065
Depreciation and amortization (note 4)	401,647	363,018
Amortization	6,308	-
Rent	26,447	8,920
Professional services	222,805	145,233
Educational expenses	101,219	85,469
Annual meeting	151,736	148,986
ATM and master card fees	363,653	295,741
Advertising and promotion	418,658	80,713
Other (note 10)	<u>523,677</u>	<u>422,379</u>
Total operating expenses	<u>5,198,411</u>	<u>3,853,429</u>
Operating income	<u>470,729</u>	<u>986,272</u>
Other income	<u>841,790</u>	<u>699,898</u>
Net income	\$ <u>1,312,519</u>	<u>1,686,170</u>

See independent auditors' report and accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Members' Equity
Years ended December 31, 2007 and 2006

	<u>Appropriated Statutory</u>	<u>Unappro- priated</u>	<u>Other Comprehensive Income</u>	<u>Total</u>
Balances, December 31, 2005	\$ <u>3,433,173</u>	<u>22,840,823</u>	<u>(57,115)</u>	<u>26,216,881</u>
Comprehensive Income:				
Net income	-	1,686,170	-	1,686,170
Reserves and undivided earnings of merged credit unions	378,573	1,330,213	-	1,708,786
Other Compre- hensive income:				
Net change in unrealized gain/loss on available for sale securities	<u>-</u>	<u>-</u>	<u>28,668</u>	<u>28,668</u>
Total compre- hensive income	<u>378,573</u>	<u>3,016,383</u>	<u>28,668</u>	<u>3,423,624</u>
Balances, December 31, 2006	\$ <u>3,811,746</u>	<u>25,857,206</u>	<u>(28,447)</u>	<u>29,640,505</u>
Comprehensive Income:				
Net income	-	1,312,519	-	1,312,519
Other Compre- hensive income:				
Net change in unrealized gain/loss on available for sale securities	<u>-</u>	<u>-</u>	<u>60,797</u>	<u>60,797</u>
Total compre- hensive income	<u>-</u>	<u>1,312,519</u>	<u>60,797</u>	<u>1,373,316</u>
Balances, December 31, 2007	\$ <u>3,811,746</u>	<u>27,169,725</u>	<u>32,350</u>	<u>31,013,821</u>

See independent auditors' report and
accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 1,312,519	1,686,170
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	401,647	363,018
Unrealized change on investments	(60,797)	(28,668)
Loss on disposition of repossessed assets	-	2,225
Provision for possible loan losses	1,190,519	360,000
Dividends credited on members' saving (shares) accounts	4,891,957	3,801,002
Premium amortization and discount accretion (net)	(210,450)	(126,844)
Changes in assets and liabilities:		
(Increase) on accrued interest receivable	(64,376)	(40,740)
(Increase) in prepaid expenses	(176,072)	(28,657)
(Increase) in other assets	(17,837)	(25,470)
Increase in accruals and other liabilities	<u>3,696,910</u>	<u>1,025,076</u>
Total adjustments	<u>9,651,501</u>	<u>5,300,942</u>
Net cash provided by operating activities	\$ <u>10,964,020</u>	<u>6,987,112</u>

(Continued)

See independent auditors' report and accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from investing activities:		
Cash proceeds from maturities, disposition and return on principal over investments	\$ 155,233,230	102,046,204
Acquisition of securities held to maturity	(123,160,856)	(87,490,151)
Acquisition of investment securities available for sale	(4,939,203)	(3,253,941)
Net increase in loans from members	(37,989,409)	(12,262,190)
Acquisition of property and equipment	(440,081)	(1,221,025)
Deposit in NCUSIF	<u>(59,573)</u>	<u>21,870</u>
Net cash used in investing activities	<u>(11,355,892)</u>	<u>(2,159,233)</u>
Cash flows from financing activities:		
Net increase/(decrease) in savings (shares) accounts	6,352,713	(3,535,009)
Cash provided by merger of credit unions	<u>-</u>	<u>1,265,450</u>
Net cash provided/(used) in financing activities	<u>6,352,713</u>	<u>(2,269,559)</u>
Net increase/(decrease) in cash and cash equivalents	<u>5,960,841</u>	<u>2,558,320</u>
Cash and cash equivalents at beginning of year	<u>4,550,158</u>	<u>1,991,838</u>
Cash and cash equivalents at end of year	\$ <u><u>10,510,999</u></u>	<u><u>4,550,158</u></u>

See independent auditors' report and
accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
December 31, 2007 and 2006

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies

Organization and Nature of Operations

Caribe Federal Credit Union ("Credit Union") is a non profit organization established to promote thrift among its members by affording them an opportunity to accumulate their savings and create for them a source of credit for productive purposes.

Business Consortium Alliance, Inc. (BCA), is a wholly owned subsidiary of Caribe Federal Credit Union (parent Company), it is a credit union service organization ("CUSO") under the United States Credit Union Act.

At December 31, 2007 and from April 2007, BCA was engaged in the development of its lines of business and in providing services to the Credit Union. During the year ended December 31, 2007, BCA assisted the Credit Union in the origination and other matters related with the portfolio of commercial loans.

Principles of Consolidation

The consolidated financial statements include the accounts of Caribe Federal Credit Union and Business Consortium Alliance, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying financial statements are presented under generally accepted accounting principles.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
- 2 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Significant Accounting Policies

Caribe Federal Credit Union has adopted the following significant accounting policies:

Investments

Held to maturity. Securities for which management has the intent and the ability to hold to maturity. These investments are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income on investments.

Available for sale. Investment securities that could be sold at any time in response to economic and strategic factors. These securities are reported at fair market value. Unrealized gains and losses on securities available for sale are recognized as a direct increase or decrease in other comprehensive income.

Investments are made in accordance with the credit union's policies, which incorporate the regulations of NCUA, hence, they are principally in federally sponsored and guaranteed instruments. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are amortized or accreted using the effective interest method. Interest income is recorded on an accrual basis.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

- 3 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Loans to Members, Allowance for Loan Losses and Loan Origination Fees

Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and net origination fees. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible, based on evaluations of the collectibility of loans and prior loan loss experience.

The evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Regularly, this is applied to loans with a delinquency greater than 60 days. The revenue for such interests not accrued are recognized when collected.

Loan origination fees are deferred and recognized over the life of the loan as an adjustment of yield. The unamortized balance of the net origination fees are reported as part of the loan balance to which it relates. The periodic amortization is reported on the income statement as interest income.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful life of the respective assets.

Collections

Art collections are capitalized at their cost at the date of purchase or, if the items were contributed, at their fair or appraised value at the contribution date.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the credit union considers all highly liquid investment securities acquired with an original or remaining maturity of three months or less to be cash equivalents.

The composition of cash and cash equivalents follows:

	<u>2007</u>	<u>2006</u>
Petty cash	\$ 200	200
Change fund	999,418	977,769
Regular and EFT account	3,112,998	637,500
U.S. Government and Agency obligations	<u>6,398,383</u>	<u>2,934,689</u>
Total cash and cash equivalents	\$ <u>10,510,999</u>	<u>4,550,158</u>

The Credit Union maintains its cash balances and certificates of deposits in eight financial institutions located in Puerto Rico and United States. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
- 5 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Members' Shares and Savings Accounts

The dividend rates are set by the Board of Directors based on an evaluation of current and future market conditions. Dividends on members' shares and savings accounts are based on available earnings at the end of the dividend and interest period and are not guaranteed by the Credit Union. Dividends are credited to the members' share accounts on the last day of the month for which dividends are declared. Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation.

Federal and State Income Taxes

Caribe Federal Credit Union is exempt, by statute, from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comprehensive Income

As of December 31, 2007 and 2006, other comprehensive income consist of unrealized gain on investment in securities classified as available for sale as follows:

Balance as of December 31, 2006	\$ (28,447)
Change during the year	<u>60,797</u>
Balance as of December 31, 2007	\$ <u>32,350</u>

Reclassifications

In the accompanying financial statements, certain 2006 figures were reclassified to conform to the 2007 presentation.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
- 6 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Impairment of Long-lived Assets

The Credit Union periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No indications of impairment are evident at December 31, 2007 and 2006.

(2) Investments

Investments Held to Maturity

The amortized cost and estimated market value of investments held to maturity as of December 31, 2007 and 2006 are as follows:

	December 31, 2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
<u>Investments</u>				
U.S. Government and Agency Obligations	\$ <u>46,918,675</u>	<u>174,976</u>	<u>-</u>	<u>47,093,651</u>
	December 31, 2006			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Market Value
<u>Investments</u>				
U.S. Government and Agency Obligations	\$ <u>74,219,263</u>	<u>-</u>	<u>(457,282)</u>	<u>73,761,981</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(2) Investments, Continued

The amortized cost and market value of debt securities, at December 31, 2007, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Due in one year or less	\$ 18,049,148	18,051,584
Due after one year through five years	26,870,769	27,040,187
Due after five years through ten years	<u>1,998,758</u>	<u>2,001,880</u>
	\$ <u>46,918,675</u>	<u>47,093,651</u>

Investments Available for Sale:

As of December 31, 2007 and 2006, the cost and fair values of investments securities available for sale are:

	<u>December 31, 2007</u>		
	<u>Amortized Cost</u>	<u>Unrealized Gain/(Loss)</u>	<u>Market Value</u>
U.S. Government Obligations	\$ <u>5,500,000</u>	<u>32,350</u>	<u>5,532,350</u>
	<u>December 31, 2006</u>		
	<u>Amortized Cost</u>	<u>Unrealized Loss</u>	<u>Market Value</u>
U.S. Government Obligations	\$ <u>3,761,336</u>	<u>(28,447)</u>	<u>3,732,889</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(3) Loans to Members

The composition of loans to members is as follows:

	<u>2007</u>	<u>2006</u>
Unsecured	\$ 43,156,106	33,853,946
Mortgage	22,279,110	20,762,081
Automobile	45,241,008	22,928,167
Share secured loans	4,393,793	3,895,627
Lines of credit	803,152	789,031
Master Card	11,748,088	8,630,667
Commercial Loans	<u>748,951</u>	<u>-</u>
	128,370,208	90,859,519
Less: Net origination fees	(474,881)	(392,235)
Allowance for loan losses	<u>(1,680,288)</u>	<u>(1,051,135)</u>
Total loans to members, net	\$ <u>126,215,039</u>	<u>89,416,149</u>

Loans in which the accrual of interest has been discontinued or reduced amounted to \$638,682 and \$254,110 at December 31, 2007 and 2006, respectively. If interest on those loans had been accrued, such income would have approximated \$26,011 and \$7,822, respectively.

A summary of the changes in the allowance for loan losses is as follows:

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 1,051,135	733,184
Allowance from merged credit unions	-	165,625
Provision charged to operations	1,190,519	360,000
Loans charged-off	(737,005)	(410,370)
Recoveries	<u>175,639</u>	<u>202,696</u>
Balance, end of year	\$ <u>1,680,288</u>	<u>1,051,135</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
- 9 -

(3) Loans to Members, Continued

Most of the credit union business activity is with its members who are employees of the Federal Government in Puerto Rico. Loans to members secured by collateral 100% consist of \$72,634,287 and \$47,585,875 for 2007 and 2006, respectively. The remaining balance represents loans partially secured and unsecured. The collections from the majority of the members loans are by direct deposit - payroll deduction.

Certain officers, directors, and employees of the credit union, including their immediate families, had loans with the credit union during 2007 and 2006. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection. Total loans outstanding to these members at December 31, 2007 and 2006, amounted to \$1,907,478 and \$1,741,417, respectively.

(4) Property and Equipment

Property and equipment is summarized as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 2,150,172	2,135,962
Building	4,622,712	4,622,713
Furniture and fixtures	583,170	496,585
Office equipment, principally computer system	2,136,506	1,801,111
Leasehold improvements	<u>64,787</u>	<u>60,895</u>
	9,557,347	9,117,266
Accumulated depreciation and amortization	<u>(3,117,555)</u>	<u>(2,715,908)</u>
	\$ <u>6,439,792</u>	<u>6,401,358</u>

Depreciation and amortization expense amounted to \$401,647 and \$363,018 for 2007 and 2006, respectively.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(5) Savings (Shares) Accounts

Members' shares and savings accounts are summarized as follows:

	Weighted-Average rate at December 31, 2007		<u>2007</u>	<u>2006</u>
Share savings	2.10%	\$	78,512,653	80,500,909
Share draft	.91%		<u>6,769,922</u>	<u>6,531,524</u>
			<u>85,282,575</u>	<u>87,032,433</u>

Share certificates:

2.1% - 3.00%			2,679,010	4,398,577
3.1% - 4.00%			9,453,158	17,597,392
4.1% - 5.00%			53,204,754	34,316,102
5.1% - 5.83%			<u>12,279,268</u>	<u>8,309,591</u>
			<u>77,616,190</u>	<u>64,621,662</u>
Total savings (shares) accounts		\$	<u>162,898,765</u>	<u>151,654,095</u>

The aggregate amount of members' shares and savings accounts over \$100,000 were approximately \$51,275,372 and \$42,407,501 at December 31, 2007 and 2006, respectively.

At December 31, 2007, scheduled maturities of share certificates are as follows:

	Year Ending December 31					Total
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	
2.1% - 3.00%	\$ 2,679,010	-	-	-	-	2,679,010
3.1% - 4.00%	8,215,845	846,313	391,000	-	-	9,453,158
4.1% - 5.00%	38,554,742	9,185,332	3,328,928	1,467,334	668,418	53,204,754
5.1% - 5.83%	-	1,191,435	429,658	<u>5,521,241</u>	<u>5,136,934</u>	<u>12,279,268</u>
Total	<u>\$ 49,449,597</u>	<u>11,223,080</u>	<u>4,149,586</u>	<u>6,988,575</u>	<u>5,805,352</u>	<u>77,616,190</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(5) Savings (Shares) Accounts, Continued

Dividends expense on members' shares and savings accounts is summarized as follows:

	<u>2007</u>	<u>2006</u>
Share savings	\$ 1,656,969	1,421,068
Share draft	65,793	65,223
Share certificate	<u>3,185,274</u>	<u>2,386,186</u>
	\$ <u>4,908,036</u>	<u>3,872,477</u>

(6) Accruals and Other Liabilities

The composition of accruals and other liabilities is as follows:

	<u>2007</u>	<u>2006</u>
Dividends payable	\$ 211,491	195,413
Money orders and travelers checks	2,191	18,906
Accrued payroll and related	101,545	93,811
Annual members' meeting	100,000	100,000
Loan insurance	288	1,151
Accounts payable - trade	184,559	57,166
Accounts payable - ATM	3,460	6,481
Accounts payable - auto dealers	4,367,091	1,005,761
Escrow accounts	144,412	114,957
Other accruals	<u>425,783</u>	<u>250,264</u>
	\$ <u>5,540,820</u>	<u>1,843,910</u>

(7) Members' Equity

Caribe Federal Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends. The statutory reserve consists of \$3,811,746 for 2007 and 2006.

(Continued)

(8) Pension Plan

The employees of Caribe Federal Credit Union participate in a group pension plan through contributions to a life annuity accumulation contract administered by an insurance company. The plan was effective on October 1, 1993. Caribe Federal Credit Union matches the participant's contribution up to a 5% of the employee's compensation. All participants contribute at least 2% of their total gross compensation. In no event will the participants' annual deposit exceed 10% of the gross compensation or \$8,000.

Only full-time employees are eligible to enter the plan and must have attained eighteen (18) years old and completed twelve months of service. The normal retirement date is the first day of the month after the participants' 62nd birthday and after completing twenty (20) years of service.

The plan also provides for early retirement. A participant may elect to retire at any time after attaining fifty-five (55) years old and completing seven (7) years of service.

Vesting is accumulated after the second year on the plan for a period of five years at 20% per year.

At termination of employment, the vested portion of a participant's account will be paid following the next annual benefit payment date.

During the years ended December 31, 2007 and 2006 Caribe Federal Credit Union contributed approximately \$51,000 and \$40,200, respectively, to the pension plan.

(9) NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is in accordance with National Credit Union Administration (NCUA) regulations, which require the maintenance of a deposit by each insured credit union in an amount equal to one percent (1%) of its insured shares. The deposit is refunded to the credit union if its insurance coverage is terminated, it converts its insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(10) Other Expenses

At December 31, 2007 and 2006, the other expenses consist of the following:

	<u>2007</u>	<u>2006</u>
Travel and conferences	\$ 26,458	20,726
Dues and subscriptions	12,143	10,632
Loan servicing & collection	107,154	75,441
Software support	95,404	75,679
Monthly statements	93,582	80,590
Federal operating	36,969	34,893
Bank service charges	54,210	44,121
Employees activities	19,822	15,825
Other miscellaneous	77,935	36,986
Mergers' related expenses	<u>-</u>	<u>27,486</u>
	<u>\$ 523,677</u>	<u>422,379</u>

(11) Loan Commitments

At December 31, 2007, Caribe Federal Credit Union had outstanding commitments with its members for unused lines-of-credit and credit cards that are not reflected in the accompanying financial statements as follows:

Lines-of-credit	\$ 394,748
Credit cards	<u>11,498,409</u>
	<u>\$ 11,893,157</u>

In addition the Credit Union had pending to deliver certain payments to auto dealers subject to the presentation of required documents. As of December 31, 2007 and 2006 payments amounted to \$4,367,091 and \$1,005,761, respectively.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(11) Loan Commitments, Continued

Caribe Federal Credit Union is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its members. These financial instruments include commitments to extend credit and involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statement of financial position. The contractual notional amounts of those instruments reflect the extent of involvement Caribe Federal Credit Union has in particular classes of financial instruments.

Caribe Federal Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. Caribe Federal Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Unless noted otherwise, Caribe Federal Credit Union does not require collateral or other security to support financial instruments with credit risk.

Financial instruments whose contract amounts represent credit risk-commitments to extend credit	\$ <u>11,893,157</u>
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Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Caribe Federal Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by Caribe Federal Credit Union upon extension of credit, is based on management's credit evaluation of the counterpart.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(12) Line of Credit

Caribe Federal Credit Union has a line of credit facility with financial institutions. As of December 31, 2007 and 2006 there are not outstanding balances in the subject line of credit. The unused amount is \$11,200,000 and \$1,200,000, respectively. Interest is charged when applicable at prime rate.

(13) Litigation

In the normal course of businesses, the Company is a defendant in certain lawsuits. Management understands that the effect, if any, of the subject cases, will not be significant for the financial statements.

(14) Fair Values of Financial Instruments

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term nature of these instruments.

Investment Securities

Fair values have been determined using quoted market prices for all investment securities.

Loan Receivables

The fair value of the loan receivables approximates the carrying amount in the financial statements.

Accrued Interest Receivable

The fair value of the accrued interest receivable approximates the carrying amount in the financial statements.

Savings/(Shares) Accounts

The fair value of members' deposits (savings share accounts and share drafts) having no fixed maturity is the amount payable on demand at the reporting date.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
- 16 -

(14) Fair Values of Financial Instruments, Continued

Deposit Accounts

The fair value of fixed maturity members' deposits (certificates of deposit) is estimated using the rates currently offered for deposits with similar remaining maturities.

Loan Commitments

The fair value for the commitments to extend credit was determined using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates.

The carrying amounts and estimated fair values of the Credit Union's financial instruments as of December 31, 2007 are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets		
Cash and cash equivalents	\$ 10,510,999	10,510,999
Certificates of deposits	900,000	900,000
Investment securities	52,451,025	52,626,001
Loans receivable	127,895,327	127,895,327
Less: allowance for loan losses	(1,680,288)	(1,680,288)
Accrued interest receivable	1,204,235	1,204,235
	\$ <u>191,281,298</u>	<u>191,456,274</u>
Financial Liabilities		
Members' shares and savings accounts	\$ <u>162,898,765</u>	<u>162,898,765</u>
Off-Balance-Sheet Financial Instruments		
Commitments to extend credit	\$ <u>11,893,157</u>	<u>11,893,157</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(15) Regulatory Capital

The Credit Union is subject to regulatory net worth ratio requirements administered by the NCUA. In addition, the NCUA has also established Risked Based Net Worth (RBNW) requirements for complex credit unions based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. Failure to meet minimum net worth or RBNW requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Credit Union to maintain minimum ratios (set forth in the table below) of net worth (as defined in the regulations) to assets (as defined) and RBNW ratios (as defined). Management believes, as of December 31, 2007 and 2006, that the Credit Union meets all capital adequacy requirements to which it is subject and no events have occurred since the calculation date, which would change the institution's category. The Credit Union RBNW ratio for 2007 and 2006 is 5.30% and 5.07%, respectively. The minimum ratio to be considered complex under the regulatory framework is 6%.

As of December 31, 2007 and 2006, the Credit Union's net worth is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7%.

	<u>Actual</u>		<u>To be Adequately Capitalized under the Prompt Corrective Action Provisions</u>		<u>To be Well Capitalized under the Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
2007	\$30,981,472	15.53%	≥ 11,967,204	≥ 6%	≥ 13,961,738	≥ 7%
2006	\$29,668,952	16.28%	≥ 10,927,965	≥ 6%	≥ 11,848,255	≥ 7%

CARIBE FEDERAL CREDIT UNION
 Consolidated Statement of Financial Condition
 December 31, 2007

<u>Assets</u>	<u>CFCU</u>	<u>BCA</u>	<u>Elimination</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 10,499,624	11,375	-	10,510,999
Certificates of deposits	900,000	-	-	900,000
Investments available for sale	5,532,350	-	-	5,532,350
Investments held to maturity	46,918,675	-	-	46,918,675
Loans to members, net of allowance for loan losses and net of origination fees	126,215,039	-	-	126,215,039
Accrued interest receivable	1,204,235	-	-	1,204,235
Due from parent	-	84,549	(84,549)	-
Prepaid expenses	381,275	-	-	381,275
Property and equipment, net	6,320,291	119,501	-	6,439,792
NCUSIF deposit	1,176,618	-	-	1,176,618
Collections	77,619	-	-	77,619
Investment in unconsolidated subsidiary, net	219,311	-	(219,311)	-
Other assets	86,781	10,023	-	96,804
Total assets	\$ 199,531,818	225,448	(303,860)	199,453,406
<u>Liabilities and Members' Equity</u>				
<u>Liabilities</u>				
Savings (shares) accounts	\$ 162,898,765	-	-	162,898,765
Accruals and other liabilities	5,534,683	6,137	-	5,540,820
Due to unconsolidated subsidiary	84,549	-	(84,549)	-
Total liabilities	\$ 168,517,997	6,137	(84,549)	168,439,585
<u>Equity</u>				
Members' equity:				
Capital stock - authorized 10,000 shares with a par value of \$100, issued and outstanding 5,000 shares	-	500,000	(500,000)	-
Appropriated statutory	3,811,746	-	-	3,811,746
Unappropriated	27,169,725	-	-	27,169,725
Deficit accumulated from April 2007 (month of inception) to December 31, 2007	-	(280,689)	280,689	-
Accumulated other comprehensive income	32,350	-	-	32,350
Total equity	31,013,821	219,311	(219,311)	31,013,821
Total liabilities and members' equity	\$ 199,531,818	225,448	(303,860)	199,453,406

See independent auditors' report and accompanying notes to financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statement of Income
Years ended December 31, 2007

	<u>CFCU</u>	<u>BCA</u>	<u>Elimination</u>	<u>Consolidated</u>
Interest income:				
Interest and fees on loans	\$ 8,010,211	-	-	8,010,211
Interest on investments	<u>3,757,484</u>	-	-	<u>3,757,484</u>
	11,767,695	-	-	11,767,695
Dividends expense:				
Savings (shares) accounts	<u>4,908,036</u>	-	-	<u>4,908,036</u>
	6,859,659	-	-	6,859,659
Net interest income	<u>(1,190,519)</u>	-	-	<u>(1,190,519)</u>
Provision for loan losses				
Net interest income after provision for loan losses	<u>5,669,140</u>	-	-	<u>5,669,140</u>
Non interest income:				
Professional fees	-	15,000	(15,000)	-
Operating expenses:				
Compensation and benefits	2,027,051	157,816	-	2,184,867
Directors' meetings and seminars	60,166	10,771	-	70,937
Occupancy and utilities	158,257	-	-	158,257
Communications	200,286	6,210	-	206,496
Repair and maintenance	54,557	-	-	54,557
Office supplies	63,120	7,117	-	70,237
Security	28,768	-	-	28,768
Insurance	207,612	530	-	208,142
Depreciation and amortization	389,831	11,816	-	401,647
Amortization	-	6,308	-	6,308
Rent	7,928	18,519	-	26,447
Professional services	199,275	38,530	(15,000)	222,805
Educational expenses	101,219	-	-	101,219
Annual meeting	151,736	-	-	151,736
ATM and master card fees	363,653	-	-	363,653
Advertising and promotion	387,686	30,972	-	418,658
Other	516,577	7,100	-	523,677
Total operating expenses	<u>4,917,722</u>	<u>295,689</u>	<u>(15,000)</u>	<u>5,198,411</u>
Operating income	751,418	(280,689)	-	470,729
Other income	<u>841,790</u>	-	-	<u>841,790</u>
Participation in losses of unconsolidated subsidiary	<u>(280,689)</u>	-	280,689	-
Net income	<u>\$ 1,312,519</u>	<u>(280,689)</u>	<u>280,689</u>	<u>1,312,519</u>

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