Caribe Federal Credit Union

CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the years ended
December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Caribe Federal Credit Union
San Juan, Puerto Rico

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of the Caribe Federal Credit Union ("the Credit Union") which comprise the consolidated statements of financial condition as of December 31, 2018 and 2017, and the related statements of income and expenses, changes in members' equity, comprehensive net income, and cash flows for the years then ended, and the corresponding notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Credit Union, as of December 31, 2018 and 2017, and the results of its operations, changes in member's equity, comprehensive net income and cash flows for the years then ended, in accordance with generally accepted accounting principles in the United States of America.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

SUPPLEMENTAL INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in pages 42, 43, and 44 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such supplemental information is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated in all material respects in relation to the consolidated financial statements taken as whole.

May 9, 2019
San Juan, Puerto Rico

Stamp No E-345256
was affixed to the original.

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Caribe Federal Credit Union

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2018 and 2017

Assets	**2018**	**2017**
Cash and cash equivalents	$ 10,440,598	$ 9,345,373
Certificates of deposits	38,594,055	36,799,270
Investment securities	28,490,000	30,894,050
Loans to members, net	297,810,461	260,765,678
Loans held-for-sale, net	3,944,124	4,729,169
Accrued interest receivable	883,209	1,460,975
Accounts receivable, net	47,547	37,500
Prepaid expenses	203,324	125,327
Property and equipment, net	11,237,072	11,183,917
NCUSIF deposit	3,149,259	2,815,866
Art collections	92,619	77,619
Other assets	406,032	824,139
Total assets	$ 395,298,300	$ 359,058,883
Liabilities and Members' Equity		
Members' shares accounts	$ 339,816,579	$ 303,785,748
Accounts payable and accrued liabilities	2,590,047	2,626,509
Accounts payable to auto dealers	2,812,770	7,095,436
Total liabilities	345,219,396	313,507,693
Members' Equity		
Appropriated regular reserve	3,811,746	3,811,746
Unappropriated earnings	46,421,828	41,897,281
Accumulated other comprehensive loss	(154,670)	(157,837)
Total members' equity	50,078,904	45,551,190
Total liabilities and members' equity	$ 395,298,300	$ 359,058,883

The accompanying notes are an integral part of the consolidated financial statements.

Caribe Federal Credit Union

CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES

For the years ended December 31, 2018 and 2017

	2018	2017
Interest income:		
Interest and fees on loans	$ 13,740,082	$ 11,849,898
Interest on investments	1,015,340	886,470
Total interest income	14,755,422	12,736,368
Interest expense:		
Interest and dividends on members' shares and savings accounts	2,578,920	1,989,172
Net interest income	12,176,502	10,747,196
Provision for loan losses	(341,637)	(2,735,265)
Net interest income after provision for loan losses	11,834,865	8,011,931
Service fee and non-interest income	1,943,331	693,765
Non-interest expenses:		
Compensation and benefits	4,356,775	3,665,686
Occupancy and related	2,326,466	2,044,781
Other	2,570,408	1,811,062
Total non-interest expenses	9,253,649	7,521,529
Net income	$ 4,524,547	$ 1,184,167

The accompanying notes are an integral part of the consolidated financial statements.

Caribe Federal Credit Union
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2018 and 2017

	2018	2017
Net income	$ 4,524,547	$ 1,184,167
Other comprehensive income/(loss):		
Unrealized holding gain/(loss) on investment securities available for sale	3,167	(110,969)
Total comprehensive income	$ 4,527,714	$ 1,073,198

The accompanying notes are an integral part of the consolidated financial statements.

Caribe Federal Credit Union

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended on December 31, 2018 and 2017

	Appropriated Regular Reserve	Unappropriated Earnings	Accumulated Other Comprehensive loss	Total
Balance, December 31, 2016	$ 3,811,746	$ 40,713,114	$ (46,868)	$ 44,477,992
Net income	-	1,184,167	-	1,184,167
Net unrealized loss on investment securities available-for-sale	-	-	(110,969)	(110,969)
Balance, December 31, 2017	3,811,746	41,897,281	(157,837)	45,551,190
Net income	-	4,524,547	-	4,524,547
Net unrealized gain on investment securities available-for-sale	-	-	3,167	3,167
Balance, December 31, 2018	$ 3,811,746	$ 46,421,828	$ (154,670)	$ 50,078,904

The accompanying notes are an integral part of the consolidated financial statements

Caribe Federal Credit Union

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended on December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Net income	$ 4,524,547	$ 1,184,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	854,574	864,984
(Accretion)/Amortization of deferred loan origination fees, net	(108,277)	2,690
Gain on sale of mortgage loans held-for-sale	(149,893)	-
(Gain)/loss on disposition of repossessed assets	(14,939)	23,539
Capitalized interest on certificate of deposit	-	(70)
Provision for possible loan losses	341,637	2,735,265
Proceeds from sale of mortgage loans held-for-sale	5,179,056	-
Originations of mortgage loans held-for-sale	(4,244,118)	-
Dividends credited on members' shares accounts	2,554,108	1,993,957
(Increase)/decrease in assets:		
Accrued interest receivable	588,452	(820,188)
Accounts receivable, net	(10,047)	330,084
Prepaid expenses	(77,997)	6,130
Other assets	163,621	(96,830)
(Decrease)/increase in assets:		
Accounts payable and accrued liabilities	(218,565)	833,970
Accounts payable to auto dealers	(4,282,666)	4,084,196
Total adjustments	574,946	9,957,727
Net cash provided by operating activities	5,099,493	11,141,894
Cash flows from investing activities:		
Acquisition of certificates of deposit	(13,760,192)	(12,638,000)
Proceeds from certificates of deposit	14,701,123	-
Acquisition of investment securities available-for-sale	(2,000,000)	(10,500,000)
Proceeds from maturities of investment securities available-for-sale	5,000,000	-
Acquisition of investment securities held-to-maturity	(63,886,000)	-
Proceeds from maturities of investment securities held-to-maturity	63,293,217	39,798,600
Net increases in loans to members	(33,722,660)	(40,066,909)
Acquisitions of property and equipment	(807,729)	(221,269)
Proceeds from sale of repossessed assets	645,142	-
Deposit in NCUSIF	(333,393)	(129,691)
Acquisitions of art collections	(15,000)	-
Cash acquired in business acquisition	2,524,633	-
Net cash used in investing activities	(28,360,859)	(23,757,269)
Cash flows from financing activities:		
Net increase in shares accounts	24,356,591	14,818,452
Net cash provided by financing activities	24,356,591	14,818,452
Net increase in cash and cash equivalents	1,095,225	2,203,077
Cash and cash equivalents at beginning of year	9,345,373	7,142,296
Cash and cash equivalents at end of year	$ 10,440,598	$ 9,345,373

The accompanying notes are an integral part of the consolidated financial statements.

Supplemental Disclosures of Cash Flow Information

Interest and dividend paid for the years ended December 31, 2018 and 2017 was $2,554,108 and $1,993,957, respectively.

Also, during the years ended December 31, 2018 and 2017, unrealized gain/(loss) on securities available-for-sale were recognized for $3,167 and ($110,969), respectively, representing a non-cash item. Those charges are not reported as part of the net income for those years since they represent other comprehensive income.

During the years ended December 31, 2018 and 2017, the transfers of loans, net to other real estate owned was $236,676 and $298,192, respectively.

1. ORGANIZATION

Caribe Federal Credit Union ("the Credit Union") is a nonprofit organization established in 1951 organized and chartered under the Federal Credit Union Act. The Credit Union serves federal employees in Puerto Rico and the U.S. Virgin Islands, members of the *Liga de Estudiantes de Arte de San Juan,* select employee groups in Puerto Rico and immediate family members. Its purpose is 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 the Credit Union (Parent Company). It is a credit union service organization ("CUSO") under the United States Credit Union Act. It was engaged in the development of its lines of business and in providing services to the Credit Union.

During the year ended December 31, 2008, Business Alliance Insurance Agency (BAIA) was incorporated and began operations in 2009. The Company was created to conduct and operate a general insurance agency business for insurance companies organized or admitted doing business in the Commonwealth of Puerto Rico. It is a subsidiary of BCA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies followed the Credit Union are in conformity he accounting principles generally accepted in the United States of America (US GAAP). The most significant policies are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of the Credit Union and its wholly-owned subsidiary Business Consortium Alliance, Inc. (BCA), which was consolidated with Business Alliance Agency (BAIA). All significant intercompany balances and transactions between the Credit Union and the subsidiary have been eliminated in the preparation of the consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

In the accompanying financial statements, certain 2017 figures were reclassified to conform to the 2018 presentation.

Concentrations of Credit Risk

Financial instruments that potentially subject the Credit Union to credit risk include cash balances and certificate of deposits with several financial institutions located in Puerto Rico and the United States; which were insured for up to $250,000 by the U.S. Federal Deposit Insurance Corporation (FDIC). The balances may exceed amounts insured by the FDIC.

Credit risk for loans receivable and share accounts are also concentrated since most of the Credit Union's members are located in the Puerto Rico geographical area.

Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Association (NCUA) up to $250,000 per institution. The bank balance of deposits in commercial banks amounting to $10,013,266 exceeded the amounts covered by federal depository insurance limits. There was no bank balance of deposits exceeding the NCUA depository insurance limits at December 31, 2018 and the balance of deposits in *Banco Cooperativo* amounting to $1,417,723 were uninsured at that 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.

Investment Securities

Investment securities consist mainly of obligations issued by the Government of the United States and its political subdivisions. The Credit Union records the investments in securities in accordance with *Accounting for Certain Investments in Debts and Equity Securities.* The Credit Union classifies investments in debt instruments as securities available for sale and held-to-maturity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments are made in accordance with the Credit Union's policies, which incorporate the regulations of National Credit Union Administration (NCUA), hence they are principally in federally sponsored and guaranteed instruments. Gains or losses on disposition are based on the net proceeds and the adjustment carrying amount of the securities sold, using the specific identification method. Interest income is recorded on an accrual basis.

<u>Securities held-to-maturity</u>

Securities held-to-maturity are those which the management has the intent to hold to maturity. These investments are reported at cost, adjusted for amortization of premiums or accretion of discounts, which are recognized in investment interest income using the effective interest method over the period of maturity.

<u>Securities available-for-sale</u>

Securities available-for-sale are presented at fair market value. Unrealized gains and losses on securities available-for-sale are excluded form earnings and recognized as an increase or decrease in other comprehensive income. Investment securities in this classification could be sold any time in response to economic and strategic factors.

<u>Other than temporary decline in the fair market value</u>

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are other than temporary are reflected as realized losses. In estimating other than temporary impairment, management considers: (1) the credit union intent to sell the debt security prior to recovery and, (2) whether it is more likely than not that it will not have to sell the debt prior to recovery, the security would not be considered other than temporarily impaired unless there is a credit loss. When the Credit union does not intend to sell a security, and its more likely than not, the Credit Union will not have to sell the security before recovery of its cost basis, it will recognize the credit component of other than temporary impairment of a debt security in earnings and the remaining portion in accumulated other comprehensive income (loss).

Loans Held for Sale

Loans held for sale consists of mortgage loans carried at the lower of original cost or market value in compliance with FASB ASC 948-310. Market value is determined either on a loan-by-loan basis or on a combined related pool. Net unrealized losses are recognized through a valuation allowance by charges to income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members and Allowance for Loan Losses

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 collectability of the principal is unlikely and recoveries of previously charged off amounts are credited to the allowance for loan losses. 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 collectability of loans and prior loan loss experience.

The evaluations take into consideration such factors as changes in the nature and volume of 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 the delinquency greater than 89 days. The revenue for such interests not accrued is recognized when collected.

Loan Origination Fees

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 is reported as part of the loan balance to which it relates. The periodic amortization is reported on the income statement as interest income.

Accounts Receivable

Accounts receivable are stated at their net realizable value.

Property and Equipment

Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line- method over the estimated useful lives of the assets. Leasehold improvements are stated at cost, less accumulated amortization. Assets classified as construction in process are not depreciated until the asset has been completed and placed into service.

2. SUMMARY OF 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, 2018 and 2017.

Art Collection

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.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is 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 obtains its insurance coverage from another source, or the operations of the fund are transferred from the NCUA Board.

Assets Acquired in Liquidation of Loans

Assets acquired in satisfaction of loans are initially recorded at the fair value of the real estate or repossessed property less the cost of selling it at the date of foreclosure or repossession. At the time properties are acquired in full or partial satisfaction of loans, any excess of the loan balance over the estimated fair value of the property is charged against the allowance for loan and lease losses. After foreclosure or repossession, these properties are carried at the lower of cost or fair value less estimated cost to sell based on recent appraised values or options to purchase the foreclosed or repossessed property. Any excess of the carrying value over the estimated fair value, less estimated costs to sell, is charged to non-interest expense. The costs and expenses associated to holding these properties in portfolio are expensed as incurred.

Members' Shares 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 accounts are based on available earnings at the end of the corresponding 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 accounts are subordinated to all other liabilities of the Credit Union upon liquidation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not for the payment of dividends. The statutory reserve consists of $3,811,746 for 2018 and 2017.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income/(loss). Other comprehensive income/(loss) includes unrealized gains and losses on investment securities available-for-sale securities.

Advertising and Promotional Costs

Advertising and promotional costs are expended as incurred.

Federal and State Income Taxes

The Credit Unions is exempt, by statute, from federal and state income taxes.

New Accounting Update Not Yet Adopted

Measurement of Credit Losses on Financial Instruments. In June 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-13, which includes an impairment model (known as the current expected credit loss (CECL) model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses. The new standard is effective for the Credit Union for annual periods in fiscal years beginning after December 15, 2021, that is, for fiscal year 2022. The Credit Union has not yet determined the effect of the new standard on its current policies for measurement of credit losses on financial instruments.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to increase transparency and comparability of accounting for lease transactions. The ASU will require lessees to recognize most leases on the balance sheet as lease assets and lease liabilities and will require both quantitative and qualitative disclosures regarding key information about leasing arrangements. Lessor accounting is largely unchanged. The guidance is effective December 31, 2020 with an option to early adopt. The Credit Union is evaluating whether to early adopt and the effect that ASU 2016-02 will have on its consolidated financial statements, regulatory capital and related disclosures.

3. BUSINESS COMBINATION

On August 1, 2018, the Credit Union entered into a Merger Agreement ("the Agreement") with Borinquen Sur Federal Credit Union (BSFCU). Under the terms of the Agreement, the Credit Union acquired all assets, rights, and property and assume all liabilities of BSFCU.

The applicable provisions of Accounting Standards Codification ("ASC") 805, "Business Combinations" and the operations of the merged entities are included with the Credit Union's consolidated balances as of the effective dates of acquisition. Under this guidance, the assets acquired, and liabilities assumed for credit union merger are recorded at their respective fair values at the effective date of the merger. If the fair value of the acquired liabilities exceeds the fair value of the acquired assets, then goodwill is recorded; however, if fair value of assets acquired exceeds the fair value of liabilities assumed and entity value acquired, then the difference is recognized in the Credit Union's income statement- other non-interest income- as a merger purchase gain.

Refer to below table for details of the assets acquired and liabilities assumed at fair value.

Fair value of Assets Acquired	**Amount**
Loans to members, net	$ 4,443,315
Cash and cash equivalents	2,524,636
Investment securities	2,735,715
Property and equipment, net	100,000
Accrued interest receivable	10,685
Other assets	139,039
Fair value of Liabilities Acquired	
Members' shares and savings accounts	(9,120,132)
Accounts payable and accrued liabilities	(182,103)
Residual Merger Gain	$ 651,155

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4. CASH AND CASH EQUIVALENTS

As of December 31, 2018, and 2017, the balance of cash and cash equivalents consisted of the following:

	2018	2017
Cash in banks	$ 9,298,842	$ 8,255,976
Petty cash	200	200
Change Fund	1,141,556	1,089,197
Total cash and cash equivalents	$ 10,440,598	$ 9,345,373

5. CERTIFICATES OF DEPOSITS

As of December 31, 2018, and 2017, the Credit Union maintains certificates of deposits mostly in denominations of $250,000 and $100,000. The schedules maturities are as follows:

	2018	2017
Due in one year or less	$ 26,250,055	$ 13,911,000
Due after one year through three years	12,344,000	22,638,270
Due in three years or more	-	250,000
Total certificates of deposits	$ 38,594,055	$ 36,799,270

6. INVESTMENT SECURITIES

At December 31, 2018 and 2017 the investment securities were as follows:

	2018	2017
Investment securities:		
Available for Sale	$ 17,595,330	$ 20,592,163
Held to maturity	10,894,670	10,301,887
Total investment securities	$ 28,490,000	$ 30,894,050

6. INVESTMENT SECURITIES (CONTINUED)

As of December 31, 2018, and 2017, the amortized cost and the estimate fair market value of investment securities available-for-sale and held-to-maturity are as follows:

2018

Available for sale:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	$ 2,000,000	$ -	$ (12,900)	$ 1,987,100
Federal Home Loan Mortgage Corporation (FHLMC)	6,000,000	-	(73,925)	5,926,075
Federal National Mortgage Association (FNMA)	6,750,000	-	(55,275)	6,694,725
Federal Farm Credit Bank (FFCB)	3,000,000	-	(12,570)	2,987,430
Total	$ 17,750,000	$ -	$ (154,670)	$ 17,595,330

Held to maturity:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB),	$ 10,899,188	$ 306	$ (159)	$ 10,899,335
net of discounts on CDs	(4,518)	-	-	(4,518)
	$ 10,894,670	$ 306	$ (159)	$ 10,894,817

2017

Available for sale:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	$ 3,000,000	$ -	$ (18,170)	$ 2,981,830
Federal Home Loan Mortgage Corporation (FHLMC)	8,000,000	-	(66,924)	7,933,076
Federal National Mortgage Association (FNMA)	6,750,000	-	(57,663)	6,692,337
Federal Farm Credit Bank (FFCB)	3,000,000	-	(15,080)	2,984,920
Total	$ 20,750,000	$ -	$ (157,837)	$ 20,592,163

Held to maturity:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	$ 10,301,887	$ 174	$ (82)	$ 10,301,979
Total	$ 10,301,887	$ 174	$ (82)	$ 10,301,979

6. INVESTMENT SECURITIES (CONTINUED)

The amortized cost and estimated fair value of investment securities, at December 31, 2018 and 2017, by contractual maturity, are shown below. Investment expected maturities may differ from original contractual maturities because of borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2018		2017	
Due Date	**Amortized Cost**	**Market Value**	**Amortized Cost**	**Market Value**
Due in one year or less	$ 20,149,188	$ 20,084,335	$ 15,301,887	$ 15,282,620
Due after one year through five years	8,495,482	8,405,812	15,750,000	15,611,522
Total	$ 28,644,670	$ 28,490,147	$ 31,051,887	$ 30,894,142

Unrealized losses as of December 31, 2018 have not been recognized into income because they are not considered to be other-than temporary. Management considers the unrealized losses to be market driven, rather than credit driven and no loss will be realized unless the securities are sold.

	As of December 31, 2018					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Bank (FHLB)	$ 1,987,100	(12,900)	$ -	-	$ 1,987,100	$ (12,900)
Federal Home Loan Mortgage Corporation (FHLMC)	2,974,475	(25,525)	2,951,600	(48,400)	5,926,075	(73,925)
Federal Farm Credit Bank (FFCB)	996,010	(3,990)	1,991,420	(8,580)	2,987,430	(12,570)
Federal National Mortgage Association (FNMA)	3,227,415	(22,585)	3,467,310	(32,690)	6,694,725	(55,275)
Total	$ 9,185,000	$ (65,000)	$ 8,410,330	$ (89,670)	$ 17,595,330	$ (154,670)

6. INVESTMENT SECURITIES (CONTINUED)

	As of December 31, 2017					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Bank (FHLB)	$ 1,984,300	(15,700)	$ 997,130	$ (2,870)	$ 2,981,430	$ (18,570)
Federal Home Loan Mortgage Corporation (FHLMC)	4,961,755	(38,245)	2,971,720	(28,280)	7,933,475	(66,525)
Federal National Mortgage Association (FNMA)	3,472,955	(27,045)	3,219,383	(30,617)	6,692,338	(57,662)
Federal Farm Credit Bank (FFCB)	1,991,420	(8,580)	993,500	(6,500)	2,984,920	(15,080)
Total	$ 12,410,430	$ (89,570)	$ 8,181,733	$ (68,267)	$ 20,592,163	$ (157,837)

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7. LOANS

As of December 31, 2018, and 2017, the portfolio of loans of the Credit Union by type is as follows:

	2018	2017
Loans to members:		
Commercial:		
Corporations and individuals	$ 25,248,060	$ 23,149,103
Total commercial	25,248,060	23,149,103
Consumer:		
Unsecured	66,705,088	58,835,571
Mortgage	27,567,191	25,732,349
Auto	160,189,750	136,260,423
Share secured loans	8,901,444	7,339,551
Credit cards	12,916,041	13,260,682
Lines of credit	496,910	534,705
Total consumer	276,776,424	241,963,281
Total loans	302,024,484	265,112,384
Less: Allowance for loan losses	(3,665,035)	(3,769,704)
Less: Net unamortized deferred origination fees	(548,988)	(577,002)
Total loans to members, net	297,810,461	260,765,678
Loans held-for-sale:		
Consumer:		
Mortgage	4,002,176	4,760,523
Less: Net unamortized deferred origination fees	(58,052)	(31,354)
Total loans held-for-sale, net	3,944,124	4,729,169
Total loans, net	$ 301,754,585	$ 265,494,847
Total loans, gross:		
Loans to members	$ 302,024,484	$ 265,112,384
Loans held-for-sale	4,002,176	4,760,523
Total loans, gross	$ 306,026,660	$ 269,872,907

7. LOANS (CONTINUED)

Allowance for Loan Losses

The allowance for loan losses reflects management judgement of probable loan losses inherent in the portfolio at balance sheet date. The Credit Union uses a disciplined methodology to establish the allowance for loan losses each quarter. A minimum of 1.20% of the outstanding loans portfolio is required by policy. To determine the total allowance for loan losses, management estimates the provision needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a collectively basis. The allowance for loan losses consists of amounts applicable to: (1) consumer loans (personal auto, mortgage, line of credit and credit card) and (2) commercial loans portfolios.

The establishment of the allowance for loan relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. The Credit Union's allowance for loan losses is sensitive to individually evaluated loans, economic conditions and delinquency trends. Individually loans are evaluated based on each situation by experienced collection officers and reviewed by management.

Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged ("charge -off") against the allowance for loan losses. Recoveries of previously charged off amounts are credited to the allowance for loan losses.

Loan Charge-Offs

Loans recommended for charge-off must meet at least one of the following standards:

- A non-performing loan more than six month past due without a payment of at least 75 percent of a regular monthly installment within the last 90 days. In cases of non-performing loans, transfers from shares and proceeds from the sale of collateral generally do not constitute "payments";

- A loan in bankruptcy, within 60 days of receipt of notification of filing from the bankruptcy court, unless the credit union can clearly demonstrate and document that repayment is likely to occur. Loans with collateral may be written down to the value of the collateral, less cost to sell. However, in Chapters 11 and 13 bankruptcy proceedings, if the court lowers the amount that the borrower must pay, the credit union should immediately charge off that portion of the debt discharged by the court;

7. LOANS (CONTINUED)

- A fraudulent loan, no later than 90 days of discovery or when the loss is determined, whichever is shorter;

- On the death of the debtor, there appears to be little hope that there are sufficient assets available from the estate or from insurance to recover the debt;

- On liquidation of the collateral, a deficiency balance exists, and the borrower(s) has indicated that no further payments are forthcoming;

- Where CFCU has foreclosed an estimate loan loss, but has not yet sold the collateral on hand, CFCU may transfer the loan balance into the Collateral in Process of Liquidation account. It should charge-off any outstanding loan balance in excess of the property, less the cost to sell;

- Where CFCU has foreclosed an estimate loan loss, but has not yet sold the property securing the real estate loan at the fair value of the property, CFCU may transfer the loan balance into the Other Real Estate Owned (OREO) account and should charge-off any outstanding loan balance in excess of the value of property, less cost to sell;

- A delinquent loan in the hands of an attorney or collection agency, unless there are extenuating circumstances to indicate CFCU will collect the loan;

- A loan deemed uncollectible, where additional collection efforts are non-productive regardless of the number of months delinquent;

- A “skip” where the credit union has had no contact for 90 days.

When a loan meeting of the above criteria is not recommended for charge-off, the collections department will report that fact to the board of directors in a separate written report. The report will include an explanation as to why the loan should be kept open and not assigned to nonperforming asset status (e.g., the debtor has agreed to and is making regular periodic payments).

A summary of the changes in the allowance for loan losses, by portfolio segment, is as follows:

7. LOANS (CONTINUED)

2018

	Commercial	Consumer	Total
Beginning balance	$ 449,434	$ 3,320,270	$ 3,769,704
Provision during the year	1,169,264	(827,626)	341,638
Recoveries of loans previously charged-off	-	525,280	525,280
Loans charge-offs	-	(971,587)	(971,587)
Ending balance	$ 1,618,698	$ 2,046,337	$ 3,665,035
Evaluation of Allowance:			
Allowance evaluated individually	$ 1,618,698	$ 1,736,612	$ 3,355,310
Allowance evaluated collectively	-	309,725	309,725
Total	$ 1,618,698	$ 2,046,337	$ 3,665,035
Loan Ending Balance:			
Evaluated individually for impairment	$ 1,618,698	$ 1,966,841	$ 3,585,539
Evaluated collectively for impairment	23,629,362	278,811,759	302,441,121
Total	$ 25,248,060	$ 280,778,600	$ 306,026,660

2017

	Commercial	Consumer	Total
Beginning balance	$ 251,016	$ 2,053,663	$ 2,304,679
Provision during the year	198,418	2,536,847	2,735,265
Recoveries of loans previously charged-off	-	314,877	314,877
Loans charge-offs	-	(1,585,117)	(1,585,117)
Ending balance	$ 449,434	$ 3,320,270	$ 3,769,704
Evaluation of Allowance:			
Allowance evaluated individually	$ 378,202	$ 546,656	$ 924,858
Allowance evaluated collectively	71,232	2,773,614	2,844,846
Total	$ 449,434	$ 3,320,270	$ 3,769,704
Loan Ending Balance:			
Evaluated individually for impairment	$ 2,097,263	$ 1,988,583	$ 4,085,846
Evaluated collectively for impairment	21,051,840	244,735,221	265,787,061
Total	$ 23,149,103	$ 246,723,804	$ 269,872,907

7. LOANS (CONTINUED)

Non-Accruing Loans

The Credit Union generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach over 89 days past due.

Loans in which the accrual of interest has been discontinued or reduced amounted to $1,303,097 and $1,616,201, at December 31, 2018 and 2017, respectively. If interest on those had been accrued, such income would have approximately $152,256 and $112,893, respectively.

The following table summarizes the aging of the loans' receivable portfolio:

	Age Analysis of Loan to members Receivables by Category as of December 31, 2018				
December 31, 2018	Current or 0-59	60-89	Over 90	Total	Over 90 Non Accruing
Personal	$ 66,626,392	$ 78,696	$ -	$ 66,705,088	$ -
Mortgage	30,395,383	-	1,173,984	31,569,367	1,173,984
Auto	160,077,878	111,872	-	160,189,750	-
Secured	8,901,444	-	-	8,901,444	-
Credit cards	12,878,325	37,716	-	12,916,041	-
Lines of credit	496,910	-	-	496,910	-
Total consumer loans	279,376,332	228,284	1,173,984	280,778,600	1,173,984
Commercial	24,977,247	141,700	129,113	25,248,060	129,113
Total loans to members	$ 304,353,579	$ 369,984	$ 1,303,097	$ 306,026,660	$ 1,303,097

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7. LOANS (CONTINUED)

Age Analysis of Loan to members Receivables by Category as of December 31, 2017

December 31, 2017	Current or 0-59	60-89	Over 90	Total	Over 90 Non Accruing
Personal	$ 58,785,402	$ 26,555	$ 23,614	$ 58,835,571	$ 23,614
Mortgage	29,347,369	308,344	837,159	30,492,872	837,159
Auto	136,147,582	59,017	53,824	136,260,423	53,824
Secured	7,339,504	47	-	7,339,551	-
Credit cards	13,239,024	21,074	584	13,260,682	584
Lines of credit	534,705	-	-	534,705	-
Total consumer loans	245,393,586	415,037	915,181	246,723,804	915,181
Commercial	22,448,083	-	701,020	23,149,103	701,020
Total loans to members	$ 267,841,669	$ 415,037	$ 1,616,201	$ 269,872,907	$ 1,616,201

Credit Quality Information

Consumer Loans - The use of risk classifications in consumer loans allows management to estimate their exposure to different types of risk. The Credit Union has established policies to evaluate application for loans using FICO credit scores, among other information, provided by major credit reporting agencies. A FICO score is a credit score developed by a third party that take information and analyze it to predict consumer behavior, such as how likely someone is to pay their bills on time or not, or whether they are able to handle a larger credit line. Generally, the FICO score range is 300 to 850, with the higher number representing less risk to the lender.

Credit Quality Levels, Credit Score and Loans' Risk Exposure

The different levels of risk of loss established internally by the Credit Union according to the FICO credit scores are as follows:

Upper Level - 700 or more, member has little or no additional risk.

Middle Level - 660 to 699, member represents a nominal risk of loss.

Lower Level - 659 or less, member is experiencing some degree of financial difficulty, and represents a potential risk of loss.

7. LOANS (CONTINUED)

These levels are reviewed periodically, as well as other statistics and external factors, to monitor the performance of the portfolio.

The following table represents the recorded investment in consumer loans based on different levels of risk of loss for the years ended December 31, 2018 and 2017.

	December 31, 2018		December 31, 2017	
Credit Quality Levels	Loans Balance	%	Loans Balance	%
Upper Level	$ 210,212,049	76%	$ 170,266,440	71%
Middle Level	59,207,040	21%	60,350,560	25%
Lower Level	8,905,237	3%	8,552,974	4%
	278,324,326	100%	239,169,974	100%
Credit score not available	2,454,274		7,553,830	
Total consumer loans	$ 280,778,600		$ 246,723,804	

Commercial Loans - The Credit Union categorizes member business loans into risk categories based on relevant information about the ability of the borrower to service their debts such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Credit Union analyzes member business loans individually by classifying the loans as to credit risk. This analysis is limited to member business loans. The Credit Union uses the following definitions for classified risk rating:

Pass - The debtor has adequate capital and the ability to repay the debt in the normal course of operations.

Special Mention - The loan has the potential weakness, such as negative financial trends, a limited financial history, a serious documentation flaws, or inadequate control on the part of the financial institution. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset. However, a loan rated “special mention” is considered fully collectible.

Substandard - A loan is “substandard” if there is the potential for loss. Such loans have well-defined weakness and are not fully protected either by the paying capacity of the borrower or the value of the secondary source of repayment. These loans are characterized by the distinct possibility that your financial institution could sustain some loss if the deficiencies are not corrected.

7. LOANS (CONTINUED)

Doubtful and loss - The lowest risk ratings of "doubtful" and "loss" indicate increased loss potential. Such loans should have been already recognized and, more than likely, charged off.

At December 31, 2018 and 2017 and based on the most recent analysis performed, the risk category of loans is as follows:

	December 31, 2018				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	$ 23,629,362	$ -	$ 1,347,885	$ 270,813	$ 25,248,060
Total commercial	$ 23,629,362	$ -	$ 1,347,885	$ 270,813	$ 25,248,060

	December 31, 2017				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	$ 21,051,840		$ 1,396,243	$ 701,020	$ 23,149,103
Total commercial	$ 21,051,840	$ -	$ 1,396,243	$ 701,020	$ 23,149,103

Impaired Loans

The following table includes the recorded investment and unpaid principal for impaired loans receivables with associated allowance amount. The Credit Union determined the specific allowance based on the net charge-off experience for the last two years, the specific losses estimated on an individual basis, the present net value of future cash flows, discontinued at the loan's effective rate for troubled restructuring (TDR) and in cases of collateral depended loans, the fair value of the collateral fewer selling costs.

	Impaired Loans by Category for the year ended December 31, 2018		Impaired Loans by Category for the year ended December 31, 2017	
	Unpaid Principal of Impaired Loans (cases)	Specific Associated Allowance for the Impaired Loan (Cases)	Unpaid Principal of Impaired Loans (cases)	Specific Associated Allowance for the Impaired Loan (Cases)
Consumer:				
Personal	$ 126,720	$ 64,168	$ 143,058	$ 65,992
Mortgage	1,666,419	359,397	1,634,822	351,219
Auto	134,040	53,935	180,309	120,316
Credit cards	39,662	19,579	30,394	9,129
Lines of credit	-	-	-	-
Total consumer	1,966,841	497,079	1,988,583	546,656
Commercial	1,618,698	66,897	2,097,263	378,202
Total	$ 3,585,539	$ 563,976	$ 4,085,846	$ 924,858

7. LOANS (CONTINUED)

Loans secured by collateral consist of $225,301,580 and $196,637,593 for 2018 and 2017, respectively. The remaining balance represents loans partially secured and unsecured. The collections from most of the members' loans are by direct deposit through payroll deduction.

Troubled Debt Restructuring (TDR)

In situations where, for economic or legal reasons related to a member's financial difficulties, the Credit Union grants a concession for the other than an insignificant period of time to the member that the Credit Union would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Credit Union strives to identify members in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. In cases where the Credit Union grants to the member new terms that provide for a reduction of either interest or principal (on non-collateral dependent loans) measures any impairment based on the present value of expected future cash flows at the loan effective interest rate.

The following table presents the restructured loans by category:

	For the year ended December 31, 2018					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Master card	0	$ -	$ -	-	$ -	$ -
Personal	7	31,964	3,196	-	-	-
Mortgage	4	492,435	55,016	-	-	-
Auto	3	15,584	1,558	-	-	-
Total consumer loans	14	539,983	59,770	-	-	-
Commercial	7	1,347,885	66,897	-	-	-
Total	21	$ 1,887,868	$ 126,667	-	$ -	$ -

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7. LOANS (CONTINUED)

	For the year ended December 31, 2017					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Master card	1	$ 1,734	$ 173	-	$ -	$ -
Personal	9	43,361	4,336			
Mortgage	3	398,083	42,034	-	-	-
Auto	3	30,177	3,018			
Total consumer loans	16	473,355	49,561	0	-	-
Commercial	7	1,396,243	70,636	0	-	-
Total	23	$ 1,869,598	$ 120,197	0	$ -	$ -

Loans to Related Parties

Certain officers, directors, and employees of the Credit union had loans and also share accounts with the Credit Union during 2018 and 2017. 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 related parties at December 31, 2018 and 2017, amounted to $1,999,701 and $2,076,145, respectively. Share accounts to these related parties at December 31, 2018 and 2017 amounted to $4,543,357 and $4,202,656, respectively.

8. ACCRUED INTEREST RECEIVABLE

At December 31, 2018 and 2017, the following are the components of accrued interest receivable:

	2018	2017
Accrued interests on loans	$ 751,163	$ 1,337,253
Accrued interests on investments	132,046	123,722
Total accrued interest receivable	$ 883,209	$ 1,460,975

9. PROPERTY AND EQUIPMENT

As of December 31, 2018, and 2017, the property and equipment were composed of the following:

	Useful Life (in Years)	2018	2017
Buildings	40	$ 10,963,023	$ 10,876,022
Furniture and fixtures	1-5	1,216,232	1,062,577
Leasehold improvements	5	211,239	
Office equipment, principally Information systems	1-5	3,655,553	3,199,719
		16,046,047	15,138,318
Less accumulated depreciation and amortization		(7,195,470)	(6,340,896)
		8,850,577	8,797,422
Land		2,386,495	2,386,495
Total property and equipment		$ 11,237,072	$ 11,183,917

Depreciation and amortization expense charged to operations was approximately $854,574 and $864,984 for the years ended December 31, 2018 and 2017, respectively.

10. OTHER ASSETS

As of December 31, 2018, and 2017, the other assets were composed of the following:

	2018	2017
Acquired on liquidation of loans - real estate	$ 135,874	$ 512,241
Acquired on liquidation of loans - auto	-	17,160
Deposits in Banco Cooperativo	108,099	108,099
Deposits for the acquisition of property and equipment	10,782	12,105
Investment in FHLB NY	59,200	54,200
Deposits for annual meeting	27,500	15,000
Others	64,577	105,334
Total other assets	$ 406,032	$ 824,139

11. MEMBERS' SHARES ACCOUNTS

Members' shares accounts are summarized as follows:

	Weighted-Average Dividend Rate at December 31,	2018	2017
Shares drafts	0.17%	$ 19,231,030	$ 18,497,251
Regular shares (excluding escrow shares)	0.72%	240,773,308	220,545,276
Share certificates:	1.21%		
0.00% - 2.00%		54,709,928	64,148,364
2.01% - 3.00%		25,102,313	594,857
		79,812,241	64,743,221
Total members shares accounts		$ 339,816,579	$ 303,785,748

As of December 31, 2018, and 2017, the NCUA insured and Credit Union shares members' accounts up to $250,000.

The composition of insured and uninsured members' shares and deposits balances follows:

Type	2018	2017
Uninsured member shares and deposits	$ 20,030,888	$ 15,647,644
Insured member shares and deposits	320,432,091	288,538,668
Insured escrow	(646,400)	(400,564)
Total share and share certificates accounts	$ 339,816,579	$ 303,785,748

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11. MEMBERS' SHARES ACCOUNTS (CONTINUED)

At December 31, 2018, scheduled maturities of share certificates are as follows:

Year ending December 31,	Amount
2019	$ 50,695,142
2020	12,550,849
2021	6,753,297
2022	3,621,090
2023	6,191,863
	$ 79,812,241

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

Type	2018	2017
Regular shares	$ 1,720,278	$ 1,241,456
Share drafts	33,143	27,974
Share certificates	825,499	719,742
Total dividends expense	$ 2,578,920	$ 1,989,172

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2018, and 2017 the composition of accounts payable and accrued liabilities is as follows:

	2018	2017
Dividends payable	$ 55,991	$ 31,131
Accrued payroll and related	273,067	243,818
Annual members' meeting	100,000	100,000
Accounts payable - trade	63,744	96,188
Accounts payable - ATM	59,917	368,738
Escrow accounts	651,752	400,564
Other accruals	1,385,576	1,386,070
Total accounts payable and accrued liabilities	$ 2,590,047	$ 2,626,509

13. SERVICE FEE AND NON-INTEREST INCOME

Service fee and non-interest income for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
ATM card fees and charges, net	$ 135,222	$ 139,636
Master card fees and charges, net	1,125	(208,278)
Other fees, charges and expenses	721,672	450,585
Sponsorships other	106,717	68,330
Other non-interest income	662,100	12,240
	1,626,836	462,513
Non-interest income from BCA	316,495	231,252
Total service fee and non-interest income	$ 1,943,331	$ 693,765

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14. NON-INTEREST EXPENSES

The detail of non-interest expenses for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Compensation and benefits	$ 4,356,775	$ 3,665,686
Occupancy and related:		
Depreciation and amortization	854,574	864,984
Occupancy and utilities	341,745	277,903
Communications	322,784	289,002
Insurance	286,553	236,713
Rent	64,675	14,219
Repairs and maintenance	318,755	236,352
Security	137,380	125,608
	2,326,466	2,044,781
Other operating expenses:		
Professional services and contracted services	610,849	560,660
Education and promotional	452,454	260,831
Loan servicing and collection	295,269	205,741
Annual meeting	166,396	156,918
Monthly statements	143,547	126,243
Bank service charges	78,413	80,332
Federal operating	94,792	76,763
Office supplies	103,107	61,460
Commission and fees	94,783	64,800
Travel and conferences	116,153	78,196
Employees activities	34,854	24,818
Loss (gain) on disposition of assets	32,513	5,872
Dues and subscriptions	12,102	11,069
Other miscellaneous	335,176	97,359
Total other operating expenses	2,570,408	1,811,062
Total non-interest expenses	$ 9,253,649	$ 7,521,529

15. DEFERRED COMPENSATION PLAN

The employees of the Credit Union participate in a group deferred compensation plan through contributions to a life annuity accumulation contract administered by an insurance company. The plan was effective on October 1, 1993. The Credit Union matches the participant’s contribution up to a 5% of the employee compensation. All participants contribute at least 3% of their total gross compensation. The participants’ annual deposit should not exceed $15,000 from the gross compensation or $16,500 for participants over 50 years old.

15. DEFERRED COMPENSATION PLAN (CONTINUED)

Employees are eligible to enter the plan if they 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, 2018 and 2017, the Credit Union contributed $119,229 and $94,128, respectively, to the pension plan.

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES

Economic Conditions

The Commonwealth of Puerto Rico and its instrumentalities (Commonwealth) is currently experiencing a severe fiscal, economic and liquidity crisis. On June 30, 2017, the President of the United States signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Consequently, there is no assurance that the federally appointed oversight board of PROMESA will be successful in achieving budgetary and fiscal balance through a debt restructuring and a multi-year fiscal plan. The Credit Union continues to take steps to mitigate the possible effect in payment of loans by the reserve for bad debts maintaining 1.20% and 1.40% of total loans as of December 31, 2018 and 2017, respectively.

Litigation

The Credit Union maintains several claims against third parties, mainly demands payment of money and repossessions of assets, as part of its ordinary operations as a financial institution. Based upon counsel and management's opinion the outcome of such matters is not expected to have a material adverse effect on the Credit Union's financial condition.

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16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)

Loan Commitments

At December 31, 2018 and 2017, the Credit Union had outstanding the following commitments to extended credit with its members:

Lines of Credit	2018	2017
Commercial	$ 652,380	$ 2,295,820
Consumer	1,174,201	1,176,986
Credit Cards	21,328,664	20,120,647
	$ 23,155,245	$ 23,593,453

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, 2018, and 2017, payments amounted to $2,812,770 and $7,095,436, respectively, and are recorded as accounts payable to dealers in the accompanying financial statements.

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

The Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial statements for commitments to extend credit is represented by the contractual notional amount of those instruments. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments. Unless noted otherwise, the Credit Union does not require collateral or other security to support financial instruments with credit risk.

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. The Credit Union evaluates each member's credit worthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterpart.

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)

Line of Credit

The Credit Union has a line of credit facility with two financial institutions. As of December 31, 2018, and 2017 there are not outstanding balances in the subject lines of credit. With certain exceptions, substantially all assets of the Credit Union serve as collateral for the line of credit facility. The unused amount was $43,432,630 and $5,000,000 as of December 31, 2018 and 2017. Interest is charged when applicable based on the advance term, usually below prime rate.

Lease Commitments

The Credit Union has entered into an operating lease agreement with a third-party for a branch facility. Rent expense for the year ended December 31, 2018, amounted to $42,000 (none for 2017), and is included in the "occupancy and related" caption in the consolidated statements of income and expenses.

Future rental commitments under this operating lease are summarized as follows:

Year Ending December 31,		
2019	$	84,000
2020		84,000
2021		84,000
2022		84,000
2023		42,000
	$	378,000

BAIA operates on leased premises under a month-to-month agreement with an entity related with a director, at a monthly charge of $1,000. During the years ended December 31, 2018 and 2017, the total rent expenses amounted to $12,000 and $10,500, respectively.

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17. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820 Fair Value Measurements provides a framework for measuring fair value that requires an entity to determine fair value based on exit price in the principal market for the asset or liability being measured. Fair Value is defined as the exchange price that would be received on the measurement date to sell an asset or the price paid to transfer a liability in the principal or most advantageous market available to the entity in an orderly transaction between market participants. The guidance also establishes a three levels fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.

- Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

The estimated fair values of the Credit Union's financial statements, none of which are held for trading purposes, are as follows:

	December 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 10,440,598	$ 10,440,598	$ 9,345,373	$ 9,345,373
Certificates of deposits	38,594,055	38,594,055	36,799,270	36,799,270
Investment securities	28,490,000	28,494,665	30,894,050	30,894,142
Loans receivable (net of unamortized deferred origination fees)	301,754,585	268,440,983	265,494,847	257,681,542
Accrued interest receivable	883,209	883,209	1,460,975	1,460,975
Assets acquired in liquidation of loans	135,874	135,874	529,401	529,401
	$ 380,298,321	$ 346,989,384	$ 343,994,515	$ 336,710,703
Financial Liabilities				
Members' shares accounts	$ 339,816,579	339,816,579	$ 303,785,748	303,785,748
Off- Balance Sheet Financial:				
Commitments to extend credit	$ 23,155,245	$ 23,155,245	$ 23,593,453	$ 23,593,453

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts in the preceding table that is included in the statement of financial condition under the applicable captions.

The Credit Union has no financial instruments that are held or issued for trading purposes.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

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

- Certificates of Deposit- For long-term certificates of deposit, fair value has been determined discounting the principal and interest to be received at rates currently offered by other financial institutions for certificates with similar terms and characteristics.

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

- Accrued Interest Receivable - The fair value of the accrued interest receivable approximates the carrying amount in the financial statements.

- Members' shares accounts:

  (a) Regular shares and share drafts accounts - The fair value of members' regular shares and share drafts having no fixed maturity is the amount payable on demand at the reporting date.

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

- Commitments to extend credit - The estimated fair value of the commitments to extend credit represents the Credit Union are potentially unfunded under such lines of credit.

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17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value of Financial Instruments Measured on a Recurring Basis

The fair values of assets and liabilities measured on a recurring basis at December 31, 2018 and 2017 are as follows:

Asset Class	Fair Value	Fair Value Measurement At Reporting Date Using: Level 1	Level 2	Level 3
December 31, 2018				
Available-for-sale securities	$ 17,595,330	$ -	$ 17,595,330	-
Held-to-maturity securities	$ 10,894,670	$ -	$ 10,894,670	-
Assets acquired in liquidation of loans	$ 135,874	-	-	$ 135,874
December 31, 2017				
Available for sale securities	$ 20,592,163	$ -	$ 20,592,163	-
Held-to-maturity securities	$ 10,301,979	$ -	$ 10,301,979	-
Assets acquired in liquidation of loans	$ 529,401	-	-	$ 529,401

18. REGULATORY CAPITAL

As of December 31, 2018, and 2017, the Credit Union's net worth to total assets ratio is categorized as "well capitalized" as per the most recent call report. To be categorized as "well capitalized", the Credit Union must maintain a minimum net worth ratio of 7% as defined under the regulatory framework provisions of Section 38 of the FDI Act. Credit Unions whose net worth ratio falls below 7% will be subject to Prompt Corrective Actions requirements.

The Credit Union net worth ratio at December 31, 2018 and 2017 follows:

Period	CFCU Actual: Net Worth Amount	Net Worth to Total Assets Ratio (1)	CFCU Category (2)
2018	$ 50,233,574	12.70%	Well Capitalized
2017	$ 45,709,027	12.73%	Well Capitalized

18. REGULATORY CAPITAL (CONTINUED)

(1) In performing its calculation of total assets, the credit union used the monthly average over the quarter option, as permitted by regulation.
(2) There are no conditions or events since the most recent Call Report that management believes have changed the Credit Union's category.

Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Risk Based Net Worth (RBNW) Ratio

The RBNW requirement only applies to complex Credit Unions (CU) as defined by the National Credit Administration (NCUA). A complex CU is one with more than $50 million in assets and with a risk based net worth requirement of more than 6%. The RBNW is based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. The Credit Union RBNW ratio for 2018 and 2017 was 4.68% and 4.62%, respectively, based on most recent CALL Report.

19. SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through May 9, 2019, the date the consolidated financial statements were available to be issued. The Credit Union is not aware of any additional subsequent events that require recognition or disclosure in the audited consolidated financial statements.

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Caribe Federal Credit Union

CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

At December 31, 2018

Assets	**CFCU**	**BCA**	**Eliminations**	**2018**
Cash and cash equivalents	$ 10,142,046	$ 298,552	$ -	$ 10,440,598
Certificates of deposits	38,573,715	20,340	-	38,594,055
Investment securities	28,490,000	-	-	28,490,000
Loans to members, net	297,810,461	-	-	297,810,461
Loans to held-for-sale, net	3,944,124	-	-	3,944,124
Accrued interest receivable	883,209	-	-	883,209
Accounts receivable, net	27,905	19,642	-	47,547
Prepaid expenses	198,762	4,562	-	203,324
Property and equipment, net	11,236,240	832	-	11,237,072
NCUSIF deposit	3,149,259	-	-	3,149,259
Art collections	92,619	-	-	92,619
Investment in unconsolidated subsidiary, net	311,692	-	(311,692)	-
Other assets	406,032	-	-	406,032
Total assets	$ 395,266,064	$ 343,928	$ (311,692)	$ 395,298,300
Liabilities and Members' Equity				
Members' shares accounts	$ 339,816,579	$ -	$ -	$ 339,816,579
Accounts payable and accrued liabilities	2,557,811	32,236	-	2,590,047
Accounts payable to auto dealers	2,812,770	-	-	2,812,770
Total liabilities	345,187,160	32,236	-	345,219,396
Members' Equity				
Capital stock - authorized 10,000 shares with a par value of $100, issued and outstanding 5,000 shares	-	500,000	(500,000)	-
Additional paid-in capital	-	1,000,000	(1,000,000)	-
Appropriated regular reserve	3,811,746	-	-	3,811,746
Unappropriated earnings	46,421,828	-	-	46,421,828
Accumulated deficit	-	(1,188,308)	1,188,308	-
Accumulated other comprehensive loss	(154,670)	-	-	(154,670)
Total members' equity	50,078,904	311,692	(311,692)	50,078,904
Total liabilities and members' equity	$ 395,266,064	$ 343,928	$ (311,692)	$ 395,298,300

Caribe Federal Credit Union
CONSOLIDATING STATEMENT OF INCOME AND EXPENSES
For the year ended on December 31, 2018

	CFCU	BCA	Eliminations	2018
Interest income:				
Interest and fees on loans	$ 13,740,082	$ -	$ -	$ 13,740,082
Interest on investments	1,015,340	-	-	1,015,340
Total interest income	14,755,422	-	-	14,755,422
Interest expense:				
Interest and dividends on members' shares and savings accounts	2,578,920	-	-	2,578,920
Net interest income	12,176,502	-	-	12,176,502
Provision for loan losses	(341,637)	-	-	(341,637)
Net interest income after provision for loan losses	11,834,865	-	-	11,834,865
Service fee and non-interest income	1,626,836	316,495	-	1,943,331
Non-interest expenses:				
Compensation and benefits	4,355,975	800	-	4,356,775
Occupancy and related	2,304,906	21,560	-	2,326,466
Other	2,349,189	221,219	-	2,570,408
Total non-interest expenses	9,010,070	243,579	-	9,253,649
Income before participation in losses of unconsolidated subsidiary and regulatory charges	4,451,631	72,916	-	4,524,547
Participation in profit of unconsolidated subsidiary	72,916	-	(72,916)	-
Net income	$ 4,524,547	$ 72,916	$ (72,916)	$ 4,524,547

Caribe Federal Credit Union

CONSOLIDATING SCHEDULE OF NON-INTEREST EXPENSES

For the year ended on December 31, 2018

	CFCU	BCA	Eliminations	2018
Compensation and benefits	$ 4,355,975	$ 800	$ -	$ 4,356,775
Occupancy and related:				
Depreciation and amortization	854,202	372	-	854,574
Occupancy and utilities	339,049	2,696	-	341,745
Communications	320,770	2,014	-	322,784
Insurance	282,750	3,803	-	286,553
Rent	52,675	12,000	-	64,675
Repairs and maintenance	318,080	675	-	318,755
Security	137,380		-	137,380
	2,304,906	21,560	-	2,326,466
Other operating expenses:				
Professional services and contracted services	542,161	68,688	-	610,849
Education and promotional	448,193	4,261	-	452,454
Loan servicing and collection	295,269	-	-	295,269
Annual meeting	166,396	-	-	166,396
Monthly statements	143,547	-	-	143,547
Bank service charges	77,597	816	-	78,413
Federal operating	94,792	-	-	94,792
Office supplies	97,008	6,099	-	103,107
Commission and fees	-	94,783	-	94,783
Travel and conferences	116,153	-	-	116,153
Employees activities	34,854	-	-	34,854
Loss on disposition of assets	32,513	-	-	32,513
Dues and subscriptions	12,102	-	-	12,102
Other miscellaneous	288,604	46,572	-	335,176
Total other operating expenses	2,349,189	221,219	-	2,570,408
Total non-interest expenses	$ 9,010,070	$ 243,579	$ -	$ 9,253,649