2019 ANNUAL REPORT

Caribe Federal Credit Union

AGENDA

Call to Order
Ascertain Quorum
Presentation of BOD members
Invocation
USA and PR Anthems
Approval of Annual Meeting Rules
Approval of the minutes of the last meeting

President’s Report
by Juan M. Masini

Treasurer’s Report
by Ramón A. Negrón

Credit Committee Report
by Juan M. Masini

Supervisory Committee Report
by Roberto Afanador

Nominations Committee Report
by Benito Rodríguez

Old Business
New Business
Adjournment

ANNUAL REPORT

Minutes of Caribe Federal's Sixty-Seventh Annual Meeting and the Consolidated Audited Financial Statements & Supplemental Information for the years ended December 31, 2019 and 2018.

KNOW YOUR OFFICIALS

Board of Directors

Juan Masini	Chairman	Attorney at Law/Notary Public
Porfirio Ríos	First Vice-Chairman	US Trustee, DOJ, Ret.
Heriberto Martínez	Second Vice-Chairman	USDA-FSA, Ret.
Ramón A. Negrón	Treasurer	Ex-BOD ICPRFCU
Rafael Martínez	Secretary	ATF, Ret. -Attorney at Law/ Notary Public
Celia Ruíz	Asst. Secretary	USDE-IOG, Ret.
Benito Rodríguez	Asst. Treasurer	Attorney at Law/ Notary Public
Alexis Agostini	Member at Large	USDA-State Dept., Agronomist, Ret.
Emilio M. Colón	Member at Large	USA, Ret. -Professional Engineer
Juan O. Rodríguez	Member at Large	HUD-Attorney at Law/ Notary Public
Iván O. Puig	Member at Large	US Postal Service, Ret.

Supervisory Committee

Roberto Afanador	Chairperson	CPA
Joseph I. Marrero	Member	Attorney at Law/ Notary Public
José E. Camacho	Member	Realtor
Roberto Comas	Alternate Member	Attorney at Law/ Notary Public

Credit Committee

Juan M. Masini	Chairperson	Attorney at Law/ Notary Public
Celia Ruíz	Member	Retired, USDE
Melanie P. Rodríguez	Member	Attorney at Law/ Notary Public
Juan o. Rodríguez	Alternate Member	HUD-Attorney at Law/ Notary Public
Benito Rodríguez	Alternate Member	Attorney at Law/ Notary Public

MINUTES OF THE SIXTY-SEVENTH ANNUAL MEETING

JUNE 9, 2019

The 67th Annual Meeting of Caribe Federal Credit Union (CFCU) was held at the Wyndham Grand Resort Beach & Spa located in Río Grande, PR, on Sunday, June 9, 2019.

QUORUM DETERMINATION AND CALL TO ORDER

Secretary Rafael A. Martínez certified that quorum was established with more than 250 members present. Chairman Juan M. Masini-Soler called the meeting to order at 9:00 A.M.

Chairman of the Board, Juan M. Masini-Soler, welcomed everyone and expressed his appreciation to all the members present at the annual meeting. He wished everyone a pleasant experience at the 67th annual meeting and the celebration of CFCU's 68th Anniversary. The Chairman initiated the meeting and General Manager Jorge M. Vadell presented the members of the Board of Directors, the Chairman of the Supervisory Committee, the General Manager, the Parliamentary consultant, and the special guests.

Member Eric Cordero delivered the invocation and the dedication of the 67th Annual Meeting.

The Anthems of the Commonwealth of Puerto Rico and the United States of America were played.

A minute of silence was observed in memory of all the members that died since our last annual meeting.

ADMINISTRATIVE ANNOUNCEMENTS

Activities Committee Chairperson, Víctor L. Rosario presented the administrative announcements concerning the annual meeting and the social activity to all the members present, followed by a raffle for the "early bird" attendees.

ANNUAL MEETING RULES

Chairman Masini presented the proposed assembly parliamentary rules for consideration and approval by the membership. The parliamentary rules were approved without changes as they were distributed earlier during registration.

MINUTES

The Chairman of the Board presented the June 3, 2018 Annual Meeting Minutes for consideration by the members and they were unanimously approved as presented.

CHAIRMAN'S REPORT

The Chairman began his presentation by expressing, that as Chairman of the Board of Directors it was an honor and a privilege to present a general overview of CFCU's situation as well as some of the future plans and expressed that CFCU has had one of the best years in history. He also informed that the excellent results during 2018 have also been recognized by the National Credit Union Administration.

The Chairman stated that during his presentation he would provide a summary of the current social economic situation, the projects in progress, the implemented strategies during year 2018, and the plan to build a common sustainable future for the benefit of our members.

He began his presentation by expressing that it was necessary to describe the difficult economic situation that Puerto Rico was going through to better appreciate the accomplishments of CFCU during 2018. The Chairman stated that Puerto Rico has been submerged in a deep recession from which it has not been able to recover since 2006. The economists have forecasted that there would be no growth until 2026. The only economic improvement was a result of approximately $1.3 Billion in federal funding and private insurances payments after the catastrophic impacts of hurricanes Irma and Maria.

During 2017, the island's financial situation continued to deteriorate to the point that the government is bankrupt. The public debt exceeds 70 billion dollars; Consequently, the government imposed additional taxes causing an increase in the cost of living of its citizens. Another consequence of the crisis was the exodus of people leaving the island to the mainland in search of better opportunities.

Notwithstanding the dire economic situation of Puerto Rico, the financial sector such as the local banks experienced an increase in their assets by 6.59%, the local credit unions increased by 0.50% and the federal credit unions assets grew by 6.10%. However, it is my pleasure to inform you that CFCU had the highest assets growth at 10.00%.

CFCU continues to be the local federal credit union with the highest assets, totaling $395 million as of December 2018 with over 37,000 members and an asset increase of $36 million. Ten years ago, CFCU had $215 million in assets and today we have doubled that amount to $410 million. Our vision is to stimulate asset growth to no less than $1 billion, increase membership, and to continue to serve our members by offering excellent products and services.

As part of the Chairman's presentation, he mentioned main strategic goals:

- Expand CFCU's healthy financial condition
- Improve products and services
- Improve the flexibility of the loan requirements and processes
- Eliminate delinquencies and increase collections
- Improve marketing and communications
- Maintain employees well trained and avoid turnovers
- Aggressively maintain low operational expenses

Chairman Masini informed that during 2018, CFCU increased its loan portfolio and briefly highlighted the most important financial achievements.

Chairman Masini took a moment to recognize the employees who exceeded their 2018 evaluation and concluded his report expressing that CFCU's sixty-eighth (68) years of existence was due thanks to all the components of the credit union, i.e., the Board of Directors, management, its employees and most of all its members. He also gave special thanks to the BOD's spouses who have demonstrated great patience and support.

He also expressed his appreciation to hotel's key staff employees for their magnificent support during CFCU's activities. He thanked the members of CFCU and wished everyone a pleasant afternoon during the social activity.

<u>TREASURER'S REPORT</u>

Treasurer Ramón A. Negrón welcomed everyone present and began his presentation with CFCU's 2018 financial statements by comparing it to the 2017 financial statements. The financial statements were consolidated with CFCU's subsidiary Business Consortium Alliance (BCA) and its affiliate Business Alliance Insurance Agency (BAIA). The Audited Financial statements were prepared by Llavona-Casa, Caribe's external CPA firm.

The Treasurer indicated that the financial statements were available to members for their review since May 3, 2019. He informed that Puerto Rico, as the Chairman mentioned, continues to endure a serious economic recession that adversely affected the financial industries. He further mentioned that the Federal Fiscal Control Board (PROMESA) has been operating for 2 years and that payments to the debt and bonds have been waived for a period of years. Treasurer Negrón expressed that contrary to Puerto Rico, the U.S. Economy had improved significantly.

He said that thanks to the measures taken, CFCU has maintained a solid financial position and a steady growth as you will see in the presentation. The federal reserve increased the prime interest rates during December 2018 and as of April 2019 no additional prime rate increase is expected until 2020.

Treasurer Negròn mentioned that in Puerto Rico, the bankruptcies and the delinquency on loans had decreased. He then mentioned that at CFCU, the delinquency has been maintained under the 1%, which is outstanding and at the same time, the loan portfolio was in the amount of $137 million an increase of $36 million when compared to last year. CFCU continues to increase the auto loans and personal loans and reminded the members that CFCU's deposits are insured up to $250K for each member.

TOTAL ASSETS
As of December 31, 2018, CFCU closed with $359 million in assets, an increase of $36 million when compared to 2017.

ASSET COMPOSITION
The total assets consist of Cash and Cash Equivalents of $78 million. CFCU had a total of $302 million in net loans which show an increase of $37 million when compared to the previous year.

The total Liabilities and Member savings amounted to $345 million, showing an increase of $31 million when compared to last year. The equity or reserve on capital reflects the amount of $50 million, an increase of $4.5 million in capital.

The dividends paid on regular shares and shares certificates amounted to $2.6 million which is more than what most of our competitors were paying. The operational expenses amounted to $9.3 million in 2018. The increase was mainly due to the hiring of new employees and the opening of the CFCU Ponce branch.

The Treasurer informed that for year 2018, our financial statements reflect that CFCU had a net income of $4.5 million. The amount was mainly due to the reduction of the provision for loan losses precautionary measures that were taken by CFCU in case delinquency and charge offs after hurricane María.

He concluded his report expressing that in spite of the economic crisis that affected and continues to affect our island and citizens, CFCU continued to be a solid financial institution, thanks to all the members that use our products and services as well as the commitment and efforts of our Board of Directors, ALCO Committee, Management and employees. He concluded his report indicating that CFCU's success is due to the constant vision to meet the goals of the strategic plan, operational policies, and the risk analysis.

CREDIT COMMITTEE REPORT
Juan M. Masini-Soler, as the President of the Credit Committee, greeted and welcomed all the members present. He introduced each of the members of the Credit Committee and the Loan Division and recognized their outstanding performance throughout the year. Thereafter, he presented the statistics on the loans approved and rejected during 2018, a year of great challenges.

Chairman Masini-Soler indicated that a total of 13,529 loan applications were considered during the year of which 8,644 were favorably approved, representing a 64% approval rate. The breakdown of the loan portfolio for 2018 was as follows: secured loans $7,259,498, partially secured loans $1,638,419, unsecured loans $35,297,481, MasterCard $2,671,255, auto loans $81,069,940, motorcycle and boat loans $96,999 commercial loans $ 5,823,450 and mortgage loans $6,767,420 for a total of $140,624,462 in approved loans.

As of December 31, 2018, our loan portfolio had a net income of $305,419,620 representing over $36 million more when compared to 2017.

Director Juan M. Masini-Soler indicated that the Credit Committee and Management are constantly monitoring the changes in the market to provide members with the best products at the lowest cost. He encouraged all the members to take advantage of CFCU's excellent loan offers.

Masini-Soler commented that CFCU's main source of revenue is generated from loan interests. Therefore, when a member applies for a loan, they are not only contributing to CFCU's income growth, but they also receive excellent treatment by CFCU's staff as well as obtaining an excellent product at a competitive rate. Moreover, these benefits are not offered by other banks or competing credit unions.

Chairman Masini expressed that as everyone knows, 2018 continued to be a year of great challenges due to Puerto Rico's economic crisis where CFCU had to make multiple adjustments to maintain the credit union viable, genuinely competitive, and financially solid. Notwithstanding Puerto Rico's economic crisis, CFCU experienced an increase in the amount of loan applications and loans approvals. All these efforts were possible thanks to our Board of Directors and Management.

It is important to point out that other financial institutions have endured the same economic crisis of the island, however some of them are in serious financial problems and others have had to shut down operations. CFCU has maintained its firm financial course and as a good sailor would say "we have successfully endured the storm" with enthusiasm, professionalism and above all we have served our members with warmth.

Masini-Soler further expressed with immense pride that members of the Credit Committee and all the employees have contributed tremendously to making CFCU the best and most successful federal credit union established in Puerto Rico and that it was very important that when members visit CFCU they feel like if they were at home.

He expressed his appreciation to CFCU's membership for their support, wished everyone a wonderful day during this magnificent social activity and said that the best is yet to come.

<u>SUPERVISORY COMMITTEE REPORT</u>

Joseph M. Marrero, Chairman of the Supervisory Committee, introduced each member of the committee. He informed on the main duties of the Supervisory Committee which are the following:

1. Ensure the compliance of NCUA's rules and regulations.
2. Safeguard the financial objectives of the credit union.
3. Ensure that the financial goals are met by management.
4. Protect members' assets.

He informed that Llavona Casas was the CPA firm that performed the external audit and examined CFCU's operations for the year ending on December 31, 2018 and that it was their opinion that the financial statements present fairly, in all material respects, that the financial position of CFCU and the results of the operations and its cash flows were in conformity with generally accepted accounting principles (GAAP) of the United States of America. He also informed that the committee had contracted the services of FPV & Galìndez, CPA Internal Auditor Harry Santiago to provide internal audit services as required by the Board of Directors and the regulations of NCUA. Marrero also stated that CFCU's Compliance Officer makes sure that the institution complies with all the relevant laws and regulations.

He concluded his report by mentioning the list of tasks performed by the committee and the internal auditors including future workplan to be executed by the Supervisory Committee.

BUSINESS ALLIANCE INSURANCE AGENCY

Business Alliance Insurance Agency's (BAIA), Chairman Emilio M. Colòn presented BAIA's BOD members and initiated his presentation expressing that BAIA was a great source to obtain insurance products and financial planning. He briefly presented the retirement planning, educational seminar, and workshops available to members. He also commented on the importance of planning ahead of retirement as well as understanding the stages of retirement and the main questions that a person must ask themselves before establishing a plan. He concluded his report encouraging members to visit BAIA's kiosk to obtain more information on all the products available to members.

CFCU'S HISTORY BOOK

Dr. Manuel A. Morales expressed that it was his privilege and honor to introduce Dr. Guillermo A. Baralt to all the members present. Dr. Maldonado stated that Dr. Barat is a well-known and respectable historian who has written a book on CFCU that documents CFCU's most memorable achievements and growth through time.

Dr. Baralt expressed his experience during all the interviews of the members of the BOD and all the investigation on documents, historic records and other information collected. He appreciated the vote of confidence that was given to him in the project of writing CFCU's History Book. He also shared history facts when the credit union movement was being established and who were the founding fathers of CFCU, a group of federal employees. He also described the important contribution of Mrs. Ana Maria O'Neill who traveled to New Scotia after the great depression to meet with catholic priests to invite them to Puerto Rico to establish the credit union movement. He also commented on the important contribution by the ex-governor Luis Muñoz Marìn and mentioned that several members of the BOD such as Director Heriberto J. Martìnez participated in the credit union movement during that historic time. He concluded his presentation by expressing that it was his honor to write CFCU's History Book and that a copy was handed to all the members present in the annual meeting.

NOMINATIONS COMMITTEE REPORT

Benito Rodrìguez, President of the Nominations Committee, introduced the members of the committee. He then informed on the 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; 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.

Director Rodríguez indicated that the terms of the following three Directors expired and had to be filled: Mr. Alexis E. Agostini, Mr. Emilio M. Colòn and Mr. Juan O. Rodrìguez. The three Director whose term of office expired, have submitted their interest and availability to be re-elected for an additional term. The Nominations Committee favorably confirmed the candidacy of the three previously mentioned candidates for the Board of Directors.

DECLARATION OF NOMINEES

There being no additional candidates to the Board of Directors and no requirement for a voting process, Mr. Alexis E. Agostini, Mr. Emilio M. Colòn and Mr. Juan O. Rodrìguez were duly elected to serve as members of the Board of Directors for the period of 2019 to 2022.

OLD BUSINESS

General Manager Jorge M. Vadell gave a presentation on the status of the recommendations that were presented in last year's annual meeting. He informed on the recommendations that were implemented and the recommendations that were not viable.

NEW BUSINESS

Member Josè Jimenèz recommended to the person in charge of the negotiation of the Delta Health Plan to include that they cover resin and epoxy in the dental repair procedures. BAIA General Manager Vìctor L. Rosario said that he would try to negotiate it with Delta.

Member Juan Ocasio expressed that the parking cost to attend the annual meeting was excessive and that he recommended that next year there be a reduction in the price. Chairman Masini indicated that he would seek for a price reduction.

Member Josè A. Pèrez congratulated the Board members for the excellent work and appreciated the barista coffee kiosk, however, he recommended that the Tropicana musician group be changed since CFCU has had it for so many years. The recommendation will be considered by the BOD.

Chairman Masini wished everyone a wonderful experience in the social activity.

ADJOURNMENT

There being no further business to discuss, the meeting was adjourned by the Chairman of the BOD at 11:55 AM.

Caribe Federal Credit Union

CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the years ended
December 31, 2019 and 2018

LLAVONA CASAS CPA-PSC
Tus socios para el éxito

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, 2019 and 2018, 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, 2019 and 2018, 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.

LLAVONA CASAS CPA-PSC
Tus socios para el éxito

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.

April 29, 2020
San Juan, Puerto Rico

LLAVONA-CASAS CPA, P.S.C.
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was affixed to the original.

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License # 226
Expires on December 1, 2021

Caribe Federal Credit Union
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
For the years ended December 31, 2019 and 2018

Assets	**2019**	**2018**
Cash and cash equivalents	$ 10,492,409	$ 10,440,598
Certificates of deposits	61,856,289	38,594,055
Investment securities	17,862,353	28,490,000
Loans to members, net	313,873,099	297,810,461
Loans held-for-sale, net	-	3,944,124
Accrued interest receivable	1,051,911	883,209
Accounts receivable, net	42,157	47,547
Prepaid expenses	276,440	203,324
Property and equipment, net	12,703,165	11,237,072
NCUSIF deposit	3,364,742	3,149,259
Art collections	92,619	92,619
Other assets	798,161	406,032
Total assets	$ 422,413,345	$ 395,298,300
Liabilities and Members' Equity		
Members' shares accounts	$ 361,820,009	$ 339,816,579
Accounts payable and accrued liabilities	3,118,481	2,590,047
Accounts payable to auto dealers	3,202,390	2,812,770
Total liabilities	368,140,880	345,219,396
Members' Equity		
Appropriated regular reserve	3,811,746	3,811,746
Unappropriated earnings	50,443,667	46,421,828
Accumulated other comprehensive loss	17,052	(154,670)
Total members' equity	54,272,465	50,078,904
Total liabilities and members' equity	$ 422,413,345	$ 395,298,300

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, 2019 and 2018

	2019	2018
Interest income:		
Interest and fees on loans	$ 16,165,010	$ 13,740,082
Interest on investments	1,693,325	1,015,340
Total interest income	17,858,335	14,755,422
Interest expense:		
Interest and dividends on members' shares and savings accounts	3,784,768	2,578,920
Net interest income	14,073,567	12,176,502
Provision for loan losses	(1,567,940)	(341,637)
Net interest income after provision for loan losses	12,505,627	11,834,865
Service fee and non-interest income	1,315,571	1,943,331
Non-interest expenses:		
Compensation and benefits	4,811,216	4,356,775
Occupancy and related	2,637,205	2,326,466
Other	2,350,939	2,570,408
Total non-interest expenses	9,799,360	9,253,649
Net income	$ 4,021,838	$ 4,524,547

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, 2019 and 2018

	2019	2018
Net income	$ 4,021,838	$ 4,524,547
Other comprehensive income:		
Unrealized holding gain on investment securities available for sale	171,722	3,167
Total comprehensive income	$ 4,193,560	$ 4,527,714

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, 2019 and 2018

	Appropriated Regular Reserve	Unappropriated Earnings	Accumulated Other Comprehensive loss	Total
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 loss 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
Net income	-	4,021,838	-	4,021,838
Net unrealized gain on investment securities available-for-sale	-	-	171,722	171,722
Balance, December 31, 2019	$ 3,811,746	$ 50,443,666	$ 17,052	$ 54,272,464

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, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Net income	$ 4,021,838	$ 4,524,547
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	950,243	854,574
(Accretion)/Amortization of deferred loan origination fees, net	(93,116)	(108,277)
Gain on sale of mortgage loans held-for-sale	212,156	(149,893)
(Gain)/loss on disposition of repossessed assets	52,701	(14,939)
Capitalized interest on certificate of deposit	70	-
Provision for possible loan losses	1,567,940	341,637
Proceeds from sale of mortgage loans held-for-sale	9,263,023	5,179,056
Originations of mortgage loans held-for-sale	(5,531,055)	(4,244,118)
Recoveries of loans previously charged-off	371,111	525,280
Dividends credited on members' shares accounts	3,778,112	2,554,108
(Increase)/decrease in assets:		
Accrued interest receivable	(168,702)	588,452
Accounts receivable, net	5,390	(10,047)
Prepaid expenses	(73,116)	(77,997)
Other assets	(695,778)	163,621
(Decrease)/increase in assets:		
Accounts payable and accrued liabilities	528,435	(218,565)
Accounts payable to auto dealers	389,620	(4,282,666)
Total adjustments	10,557,034	574,946
Net cash provided by operating activities	14,578,872	5,099,493
Cash flows from investing activities:		
Net (increase) decrease in certificates of deposit	(23,262,304)	(13,760,192)
Acquisition of investment securities	(99,511,900)	(65,886,000)
Proceeds from maturities of investment securities	110,311,269	68,293,217
Net increases in loans to members	(17,908,573)	(34,247,940)
Acquisitions of property and equipment	(2,416,336)	(807,729)
Proceeds from sale of repossessed assets	250,948	645,142
Deposit in NCUSIF	(215,483)	(333,393)
Acquisitions of art collections	-	(15,000)
Cash acquired in business acquisition	-	2,524,633
Net cash used in investing activities	(32,752,379)	(28,360,859)
Cash flows from financing activities:		
Net increase in shares accounts	18,225,318	24,356,591
Net cash provided by financing activities	18,225,318	24,356,591
Net increase in cash and cash equivalents	51,811	1,095,225
Cash and cash equivalents at beginning of year	10,440,598	9,345,373
Cash and cash equivalents at end of year	$ 10,492,409	$ 10,440,598

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, 2019 and 2018 was $3,778,112 and $2,554,108, respectively.

Also, during the years ended December 31, 2019 and 2018, unrealized gain on securities available-for-sale were recognized for $171,722 and $3,167, 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, 2019 and 2018, the transfers of loans, net to other real estate owned was $585,523 and $236,676, respectively.

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

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 2018 figures were reclassified to conform to the 2019 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 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 $10,433,323 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, 2019 and the balance of deposits in *Banco Cooperativo* amounting to $776,826 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, 2019 and 2018.

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 2019 and 2018.

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 31, 2022, that is, for fiscal year 2023 (an additional one-year deferral was proposed due to coronavirus pandemic). 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. In the transaction the Credit Union acquired assets with a fair value of $9,953,390 and assumed liabilities with a fair value of $9,302,235 for a residual merger gain of $651,155 which was included within other non-interest income during the year ended December 31, 2018.

4. CASH AND CASH EQUIVALENTS

As of December 31, 2019, and 2018, the balance of cash and cash equivalents consisted of the following:

	2019	2018
Cash in banks	$ 8,985,922	$ 9,298,842
Petty cash	200	200
Change Fund	1,256,287	1,141,556
Certificates of Deposits with less than 3 months	250,000	-
Total cash and cash equivalents	$ 10,492,409	$ 10,440,598

5. CERTIFICATES OF DEPOSITS

As of December 31, 2019, and 2018, the Credit Union maintains certificates of deposits mostly in denominations of $250,000 and $100,000. The schedules maturities are as follows:

	2019	2018
Due in one year or less	$ 43,367,289	$ 26,250,055
Due after one year through three years	18,489,000	12,344,000
Total certificates of deposits	$ 61,856,289	$ 38,594,055

6. INVESTMENT SECURITIES

At December 31, 2019 and 2018 the investment securities were as follows:

	2019	2018
Investment securities:		
Available for Sale	$ 11,817,052	$ 17,595,330
Held to maturity	6,045,301	10,894,670
Total investment securities	$ 17,862,353	$ 28,490,000

As of December 31, 2019, and 2018, the amortized cost and the estimate fair market value of investment securities available-for-sale and held-to-maturity are as follows:

2019

Available for sale:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Mortgage Corporation (FHLMC)	$ 4,000,000	$ 3,037	$ (280)	$ 4,002,757
Federal National Mortgage Association (FNMA)	3,500,000	873		3,500,873
Federal Farm Credit Bank (FFCB)	4,300,000	15,362	(1,940)	4,313,422
Total	$ 11,800,000	$ 19,272	$ (2,220)	$ 11,817,052

Held to maturity:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB),				
net of discounts on CDs	$ 998,517	$ -	$ (107)	$ 998,410
United States Treasury Bills	5,046,784	1,275	(511)	5,047,548
Total	$ 6,045,301	$ 1,275	$ (618)	$ 6,045,958

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6. INVESTMENT SECURITIES (CONTINUED)

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

The amortized cost and estimated fair value of investment securities, at December 31, 2019 and 2018, 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.

Due Date	2019 Amortized Cost	2019 Market Value	2018 Amortized Cost	2018 Market Value
Due in one year or less	$ 12,545,301	$ 12,547,473	$ 20,149,188	$ 20,084,335
Due after one year through five years	5,300,000	5,315,537	8,495,482	8,405,812
Total	$ 17,845,301	$ 17,863,010	$ 28,644,670	$ 28,490,147

Unrealized losses as of December 31, 2019 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.

6. INVESTMENT SECURITIES (CONTINUED)

As of December 31, 2019

Description of Securities	Continuing Unrealized Losses for Less Than 12 months: Fair Value	Continuing Unrealized Losses for Less Than 12 months: Unrealized Losses	Continuing Unrealized Losses for 12 months or More: Fair Value	Continuing Unrealized Losses for 12 months or More: Unrealized Losses	Total: Fair Value	Total: Unrealized Losses
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	1,999,720	(280)	1,999,720	(280)
Federal Farm Credit Bank (FFCB)	2,298,060	(1,940)	-	-	2,298,060	(1,940)
Total	$ 2,298,060	$ (1,940)	$ 1,999,720	$ (280)	$ 4,297,780	$ (2,220)

As of December 31, 2018

Description of Securities	Continuing Unrealized Losses for Less Than 12 months: Fair Value	Continuing Unrealized Losses for Less Than 12 months: Unrealized Losses	Continuing Unrealized Losses for 12 months or More: Fair Value	Continuing Unrealized Losses for 12 months or More: Unrealized Losses	Total: Fair Value	Total: 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)

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7. LOANS

As of December 31, 2019, and 2018, the portfolio of loans of the Credit Union by type is as follows:

	2019	2018
Loans to members:		
Commercial:		
Corporations and individuals	$ 25,326,799	$ 25,248,060
Total commercial	25,326,799	25,248,060
Consumer:		
Unsecured	75,857,732	66,705,088
Mortgage	26,764,911	27,567,191
Auto	167,631,762	160,189,750
Share secured loans	9,670,018	8,901,444
Credit cards	12,672,518	12,916,041
Lines of credit	426,955	496,910
Total consumer	293,023,896	276,776,424
Total loans	318,350,695	302,024,484
Less: Allowance for loan losses	(3,963,672)	(3,665,035)
Less: Net unamortized deferred origination fees	(513,924)	(548,988)
Total loans to members, net	$ 313,873,099	$ 297,810,461

Loans Held for Sale

During the year ended December 31, 2019, the Credit Union sold mortgage loans classified at December 31, 2018 as held for sale. The outstanding balance of the mortgage loans was $4,002,176 and loans carried net unamortized deferred origination fees of $58,052 for a net loan held for sale balance of $3,944,124. The proceeds of the sale were $9,263,023 and a net gain of $212,156 was recognized in the transaction which is included within interest and fees on loans.

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,

7. LOANS (CONTINUED)

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;

- 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;

7. LOANS (CONTINUED)

- 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:

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7. LOANS (CONTINUED)

2019

	Commercial	Consumer	Total
Beginning balance	$ 1,429,557	$ 2,235,478	$ 3,665,035
Provision during the year	(473,680)	2,041,621	1,567,941
Recoveries of loans previously charged-off	-	371,111	371,111
Loans charge-offs	-	(1,640,415)	(1,640,415)
Ending balance	$ 955,877	$ 3,007,795	$ 3,963,672
Evaluation of Allowance:			
Allowance evaluated individually	$ 745,720	$ 419,643	$ 1,165,363
Allowance evaluated collectively	210,157	2,588,152	2,798,309
Total	$ 955,877	$ 3,007,795	$ 3,963,672
Loan Ending Balance:			
Evaluated individually for impairment	$ 4,351,887	$ 1,667,403	$ 6,019,290
Evaluated collectively for impairment	20,974,912	291,356,493	312,331,405
Total	$ 25,326,799	$ 293,023,896	$ 318,350,695

2018

	Commercial	Consumer	Total
Beginning balance	$ 449,434	$ 3,320,270	$ 3,769,704
Provision during the year	980,123	(638,485)	341,638
Recoveries of loans previously charged-off	-	525,280	525,280
Loans charge-offs	-	(971,587)	(971,587)
Ending balance	$ 1,429,557	$ 2,235,478	$ 3,665,035
Evaluation of Allowance:			
Allowance evaluated individually	$ 66,897	$ 497,079	$ 563,976
Allowance evaluated collectively	1,362,660	1,738,399	3,101,059
Total	$ 1,429,557	$ 2,235,478	$ 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

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 $3,748,963 and $1,303,097, at December 31, 2019 and 2018, respectively. If interest on those had been accrued, such income would have approximately $334,519 and $152,256, at December 31, 2019 and 2018, 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, 2019				
	Current or				Over 90
December 31, 2019	0-59	60-89	90 and over	Total	Non Accruing
Personal	$ 75,808,897	$ 40,926	$ 7,909	$ 75,857,732	$ 7,909
Mortgage	25,965,550	-	799,361	26,764,911	799,361
Auto	167,563,674	68,089	-	167,631,762	-
Secured	9,670,018	-	-	9,670,018	-
Credit cards	12,617,339	46,773	8,407	12,672,518	8,407
Lines of credit	426,955	-	-	426,955	-
Total consumer loans	292,052,433	155,787	815,676	293,023,896	815,676
Commercial	22,393,513	-	2,933,286	25,326,799	2,933,286
Total loans to members	$ 314,445,946	$ 155,787	$ 3,748,963	$ 318,350,695	$ 3,748,963

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7. LOANS (CONTINUED)

Age Analysis of Loan to members Receivables by Category as of December 31, 2018

December 31, 2018	Current or 0-59	60-89	90 and over	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

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, 2019 and 2018.

	December 31, 2019		December 31, 2018	
Credit Quality Levels	Loans Balance	%	Loans Balance	%
Upper Level	$ 246,740,076	85%	$ 210,212,049	76%
Middle Level	24,118,003	8%	59,207,040	21%
Lower Level	19,235,578	7%	8,905,237	3%
	290,093,657	100%	278,324,326	100%
Credit score not available	2,930,239		2,454,274	
Total consumer loans	$ 293,023,896		$ 280,778,600	

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, 2019 and 2018 and based on the most recent analysis performed, the risk category of loans is as follows:

	December 31, 2019				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	$ 14,712,399	$ 6,699,657	$ 981,457	$ 2,933,286	$ 25,326,799
Total commercial	$ 14,712,399	$ 6,699,657	$ 981,457	$ 2,933,286	$ 25,326,799

	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

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, 2019		Impaired Loans by Category for the year ended December 31, 2018	
	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	$ 162,531	$ 65,758	$ 126,720	$ 64,168
Mortgage	1,368,022	265,415	1,666,419	359,397
Auto	72,735	27,806	134,040	53,935
Credit cards	64,115	60,665	39,662	19,579
Total consumer	1,667,403	419,644	1,966,841	497,079
Commercial	4,351,887	745,719	1,618,698	66,897
Total	$ 6,019,290	$ 1,165,363	$ 3,585,539	$ 563,976

7. LOANS (CONTINUED)

Loans secured by collateral consist of $228,879,566 and of $225,301,580 for 2019 and 2018, 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, 2019					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Personal	5	$ 13,540	$ 1,354	-	-	-
Mortgage	6	568,661	61,556	-	-	-
Auto	1	4,646	465	-	-	-
Total consumer loans	12	586,847	63,375	-	-	-
Commercial	6	1,253,925	60,255	-	-	-
Total	18	$ 1,840,772	$ 123,630	-	$ -	$ -

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7. LOANS (CONTINUED)

	For the year ended December 31, 2018					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
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	-	$ -	$ -

Loans to Related Parties

Certain officers, directors, and employees of the Credit Union had loans and share accounts with the Credit Union during 2019 and 2018. 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, 2019 and 2018, amounted to $2,057,736 and $1,999,701, respectively. Share accounts to these related parties at December 31, 2019 and 2018 amounted to $4,815,191 and $4,543,357, respectively.

8. ACCRUED INTEREST RECEIVABLE

At December 31, 2019 and 2018, the following are the components of accrued interest receivable:

	2019	2018
Accrued interests on loans	$ 836,222	$ 751,163
Accrued interests on investments	215,689	132,046
Total accrued interest receivable	$ 1,051,911	$ 883,209

9. PROPERTY AND EQUIPMENT

As of December 31, 2019, and 2018, the property and equipment were composed of the following:

	Useful Life (in Years)	2019	2018
Buildings	40	$ 12,975,371	$ 10,963,023
Furniture and fixtures	1-5	1,342,686	1,216,232
Leasehold improvements	5	-	211,239
Office equipment, principally Information systems	1-5	3,942,119	3,655,553
		18,260,175	16,046,047
Less accumulated depreciation and amortization		(8,138,555)	(7,195,470)
		10,121,620	8,850,577
Land		2,581,545	2,386,495
Total property and equipment		$ 12,703,165	$ 11,237,072

On July 11, 2019, the Credit Union acquired for $2,072,000 the building of the branch facility in the Municipality of Ponce that it had previously rented.

Depreciation and amortization expense charged to operations was approximately $950,243 and $854,574 for the years ended December 31, 2019 and 2018, respectively.

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10. OTHER ASSETS

As of December 31, 2019, and 2018, the other assets were composed of the following:

	2019	2018
Acquired on liquidation of loans - real estate	$ 370,585	$ 135,874
Acquired on liquidation of loans - auto	29,871	-
Deposits in Banco Cooperativo	129,383	108,099
Deposits for the acquisition of property and equipment	-	10,782
Investment in FHLB NY	63,200	59,200
Deposits for annual meeting	27,500	27,500
Others	177,622	64,577
Total other assets	$ 798,161	$ 406,032

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11. MEMBERS' SHARES ACCOUNTS

As of December 31, 2019, and 2018, members' shares accounts are summarized as follows:

	Weighted-Average Dividend Rate at December 31,	2019	2018
Shares drafts	0.16%	$ 19,045,049	$ 19,231,030
Regular shares (excluding escrow shares)	0.91%	255,441,817	240,773,308
Share certificates:	1.70%		
0.00% - 2.00%		74,339,583	54,709,928
2.01% - 3.00%		12,993,560	25,102,313
		87,333,143	79,812,241
Total members shares accounts		$ 361,820,009	$ 339,816,579

As of December 31, 2019, and 2018, 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	2019	2018
Uninsured member shares and deposits	$ 22,173,558	$ 20,030,888
Insured member shares and deposits	340,242,849	320,432,091
Insured escrow	(596,398)	(646,400)
Total share and share certificates accounts	$ 361,820,009	$ 339,816,579

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11. MEMBERS' SHARES ACCOUNTS (CONTINUED)

At December 31, 2019, scheduled maturities of share certificates are as follows:

Year ending December 31,	Amount
2020	$ 53,891,915
2021	15,305,459
2022	6,029,258
2023	6,548,750
2024	5,557,760
	$ 87,333,143

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

Type	2019	2018
Regular shares	$ 2,276,549	$ 1,720,278
Share drafts	31,880	33,143
Share certificates	1,476,339	825,499
Total dividends expense	$ 3,784,768	$ 2,578,920

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2019, and 2018 the composition of accounts payable and accrued liabilities is as follows:

	2019	2018
Dividends payable	$ 62,646	$ 55,991
Accrued payroll and related	276,921	273,067
Annual members' meeting	100,000	100,000
Accounts payable - trade	66,257	63,744
Accounts payable - ATM	65,563	59,917
Escrow accounts	614,116	651,752
Other accruals	1,932,978	1,385,576
Total accounts payable and accrued liabilities	$ 3,118,481	$ 2,590,047

13. SERVICE FEE AND NON-INTEREST INCOME

Service fee and non-interest income for the years ended December 31, 2019 and 2018 are as follows:

	2019	2018
ATM card fees and charges, net	$ 77,403	$ 135,222
Master card fees and charges, net	(18,435)	1,125
Other fees, charges and expenses	866,092	721,672
Sponsorships other	109,304	106,717
Other non-interest income	11,620	662,100
	1,045,985	1,626,836
Non-interest income from BCA	269,586	316,495
Total service fee and non-interest income	$ 1,315,571	$ 1,943,331

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14. NON-INTEREST EXPENSES

The detail of non-interest expenses for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Compensation and benefits	$ 4,811,216	$ 4,356,775
Occupancy and related:		
Depreciation and amortization	950,243	854,574
Occupancy and utilities	396,941	341,745
Communications	341,446	322,784
Insurance	303,507	286,553
Rent	80,261	64,675
Repairs and maintenance	400,416	318,755
Security	164,391	137,380
	2,637,205	2,326,466
Other operating expenses:		
Professional services and contracted services	763,160	610,849
Education and promotional	419,274	452,454
Loan servicing and collection	259,163	295,269
Annual meeting	171,936	166,396
Monthly statements	155,284	143,547
Bank service charges	79,189	78,413
Federal operating	106,485	94,792
Office supplies	86,747	103,107
Commission and fees	64,488	94,783
Travel and conferences	181,342	116,153
Employees activities	9,303	34,854
Loss (gain) on disposition of assets	(52,701)	32,513
Dues and subscriptions	13,048	12,102
Other miscellaneous	94,221	335,176
Total other operating expenses	2,350,939	2,570,408
Total non-interest expenses	$ 9,799,360	$ 9,253,649

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, 2019 and 2018, the Credit Union contributed $114,257 and $119,229, 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, 2018, 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% of total loans as of December 31, 2019 and 2018.

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, 2019 and 2018, the Credit Union had outstanding the following commitments to extended credit with its members:

Lines of Credit	2019	2018
Commercial	$ 86,785	$ 652,380
Consumer	1,207,269	1,174,201
Credit Cards	22,780,003	21,328,664
	$ 24,074,057	$ 23,155,245

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, 2019, and 2018, payments amounted to $3,202,390 and $2,812,770, 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 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 if 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, 2019, and 2018 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 $42,485,230 and $43,432,630 as of December 31, 2019 and 2018, respectively. Interest is charged when applicable based on the advance term, usually below prime rate.

Lease Commitments

Business Alliance Insurance Agency (BAIA) leases an office facility under a month to month basis to an unrelated party. On October 1, 2019, BAIA renewed this lease agreement for 25 additional months. BAIA shall have the option to extend the term of this lease. The lease requires BAIA to pay 20% of the monthly electricity bill. For the years ended December 31, 2019 and 2018, the rental expense for this lease was approximately $14,900 and $12,000, respectively.

The future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms more than one year as of December 31, 2019 are $20,700 for December 31, 2020 and $17,250 for December 31, 2021.

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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 using 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, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 10,492,409	$ 10,492,409	$ 10,440,598	$ 10,440,598
Certificates of deposits	61,856,289	61,856,289	38,594,055	38,594,055
Investment securities	17,862,353	17,863,010	28,490,000	28,494,665
Loans receivable (net of unamortized deferred origination fees)	313,873,099	302,778,869	301,754,585	268,440,983
Accrued interest receivable	1,051,911	1,051,911	883,209	883,209
Assets acquired in liquidation of loans	400,456	400,456	135,874	135,874
	$ 405,536,517	$ 394,442,944	$ 380,298,321	$ 346,989,384
Financial Liabilities				
Members' shares accounts	$ 361,820,009	361,820,009	$ 339,816,579	339,816,579
Off- Balance Sheet Financial:				
Commitments to extend credit	$ 24,074,057	$ 24,074,057	$ 23,155,245	$ 23,155,245

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:

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

- <u>Certificates of Deposit</u>- 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.

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

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

- <u>Members' shares accounts:</u>

  (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.

- <u>Commitments to extend credit</u> - 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, 2019 and 2018 are as follows:

		Fair Value Measurement At Reporting Date Using:		
Asset Class	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
December 31, 2019				
Available-for-sale securities	$ 11,817,052	$ -	$ 11,817,052	-
Held-to-maturity securities	$ 6,045,958	$ -	$ 6,045,958	-
Assets acquired in liquidation of loans	$ 400,456	-	-	$ 400,456
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

18. REGULATORY CAPITAL

As of December 31, 2019, and 2018, 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, 2019 and 2018 follows:

	CFCU Actual		
Period	Net Worth Amount	Net Worth to Total Assets Ratio (1)	CFCU Category (2)
2019	$ 54,255,413	12.84%	Well Capitalized
2018	$ 50,233,574	12.70%	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 2019 and 2018 was 4.67% and 4.68%, respectively, based on most recent CALL Report.

19. SUBSEQUENT EVENTS

The Credit Union evaluated subsequent events through April 29, 2020, 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.

Coronavirus Pandemic

The coronavirus pandemic has the potential to create significant changes for entities in the face of disruptions to global supply chains and other business activities. The stock market decline in a bear market and the severe disruption that is rapidly unfolding for many business activities are certain to have a profound effect on the results of operations of many companies. Because of the extensive and unpredictable nature of the coronavirus epidemic, circumstances can lead to reduced liquidity and revenues, impact on internal and external human resources, asset impairments, increased liabilities, and significant changes in management estimates, among other things. Management and board of directors need to work to respond to these situations, which could impact going concern considerations of the entities, in view of the circumstances amid the global coronavirus crisis. The accompanying financial statements for the years ended December 31, 2019 and 2018 do not include any adjustments related to this event.

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Caribe Federal Credit Union

CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

At December 31, 2019

Assets	**CFCU**	**BCA**	**Eliminations**	**2019**
Cash and cash equivalents	$ 10,177,249	$ 315,160	$ -	$ 10,492,409
Certificates of deposits	61,835,879	20,410	-	61,856,289
Investment securities	17,862,353	-	-	17,862,353
Loans to members, net	313,873,099	-	-	313,873,099
Loans to held-for-sale, net	-	-	-	-
Accrued interest receivable	1,051,911	-	-	1,051,911
Accounts receivable, net	20,077	22,080	-	42,157
Prepaid expenses	246,763	29,677	-	276,440
Property and equipment, net	12,693,644	9,521	-	12,703,165
NCUSIF deposit	3,364,742	-	-	3,364,742
Art collections	92,619	-	-	92,619
Investment in unconsolidated subsidiary, net	349,330	-	(349,330)	-
Other assets	795,461	2,700	-	798,161
Total assets	$ 422,363,127	$ 399,548	$ (349,330)	$ 422,413,345
Liabilities and Members' Equity				
Members' shares accounts	$ 361,820,009	$ -	$ -	$ 361,820,009
Accounts payable and accrued liabilities	3,068,263	50,218	-	3,118,481
Accounts payable to auto dealers	3,202,390	-	-	3,202,390
Total liabilities	368,090,662	50,218	-	368,140,880
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	50,443,667	-	-	50,443,667
Accumulated deficit	-	(1,150,670)	1,150,670	-
Accumulated other comprehensive loss	17,052	-	-	17,052
Total members' equity	54,272,465	349,330	(349,330)	54,272,465
Total liabilities and members' equity	$ 422,363,127	$ 399,548	$ (349,330)	$ 422,413,345

Caribe Federal Credit Union

CONSOLIDATING STATEMENT OF INCOME AND EXPENSES

For the year ended on December 31, 2019

	CFCU	BCA	Eliminations	2019
Interest income:				
Interest and fees on loans	$ 16,165,010	$ -	$ -	$ 16,165,010
Interest on investments	1,693,325	-	-	1,693,325
Total interest income	17,858,335	-	-	17,858,335
Interest expense:				
Interest and dividends on members' shares and savings accounts	3,784,768	-	-	3,784,768
Net interest income	14,073,567	-	-	14,073,567
Provision for loan losses	(1,567,940)	-	-	(1,567,940)
Net interest income after provision for loan losses	12,505,627	-	-	12,505,627
Service fee and non-interest income	1,045,985	269,586	-	1,315,571
Non-interest expenses:				
Compensation and benefits	4,811,216	-	-	4,811,216
Occupancy and related	2,611,506	25,699	-	2,637,205
Other	2,144,690	206,249	-	2,350,939
Total non-interest expenses	9,567,412	231,948	-	9,799,360
Income before participation in losses of unconsolidated subsidiary and regulatory charges	3,984,200	37,638	-	4,021,838
Participation in profit of unconsolidated subsidiary	37,638	-	(37,638)	-
Net income	$ 4,021,838	$ 37,638	$ (37,638)	$ 4,021,838

Caribe Federal Credit Union

CONSOLIDATING SCHEDULE OF NON-INTEREST EXPENSES

For the year ended on December 31, 2019

	CFCU	BCA	Eliminations	2019
Compensation and benefits	$ 4,811,216	$ -	$ -	$ 4,811,216
Occupancy and related:				
Depreciation and amortization	949,706	537	-	950,243
Occupancy and utilities	396,113	828	-	396,941
Communications	339,206	2,240	-	341,446
Insurance	300,224	3,283	-	303,507
Rent	61,894	18,367	-	80,261
Repairs and maintenance	399,972	444	-	400,416
Security	164,391		-	164,391
	2,611,506	25,699	-	2,637,205
Other operating expenses:				
Professional services and contracted services	653,808	109,352	-	763,160
Education and promotional	418,285	989	-	419,274
Loan servicing and collection	259,163	-	-	259,163
Annual meeting	171,936	-	-	171,936
Monthly statements	155,284	-	-	155,284
Bank service charges	76,862	2,327	-	79,189
Federal operating	106,485	-	-	106,485
Office supplies	82,086	4,661	-	86,747
Commission and fees	-	64,488	-	64,488
Travel and conferences	181,342	-	-	181,342
Employees activities	9,303	-	-	9,303
Loss on disposition of assets	(52,701)	-	-	(52,701)
Dues and subscriptions	13,048	-	-	13,048
Other miscellaneous	69,789	24,432	-	94,221
Total other operating expenses	2,144,690	206,249	-	2,350,939
Total non-interest expenses	$ 9,567,412	$ 231,948	$ -	$ 9,799,360