

# 2022 ANNUAL REPORT



CARIBE FEDERAL CREDIT UNION



# PROGRAM

- 1. Registration**                      **7:30 am - 11:30 am**
- 2. Business Agenda** **9:00 am - 11:30 am**
  - A. Call to Order
  - B. Ascertain Quorum
  - C. Presentation of Head Table and Special Guests
  - D. Invocation
  - E. USA, PR, and Cooperative Movement Anthems
  - F. Administrative Announcement by *Víctor L. Rosario*
  - G. Approval of Annual Meeting Rules
  - H. Approval of the minutes of the last meeting
  - I. President's Report by *Juan M. Masini*
  - J. Treasurer's Report by *Ramón A. Negrón*
  - K. Credit Committee Report by *Juan M. Masini*
  - L. Supervisory Committee Report by *Roberto Afanador*
  - M. BAIA's Special Presentation by *Emilio M. Colón*
  - N. Nominations Committee Report by *Juan O. Rodríguez*
  - O. Old Business
  - P. New Business
  - Q. Adjournment
- 3. Social Agenda**                      **12:00 noon - 4:30 pm**

**WELCOME  
TO THE SEVENTY-FIRST ANNUAL MEETING  
OF CARIBE FEDERAL CREDIT UNION**

**HELD THIS 11th DAY OF JUNE 2023  
AT THE WYNDHAM GRAND RÍO MAR HOTEL  
RÍO GRANDE, PUERTO RICO**

It is a pleasure to welcome you to our 71st annual meeting. During the annual meeting, we the Board of Directors, in compliance with our fiduciary responsibility as required by federal law and regulation, will present the financial situation of our credit union, as well as other accomplishments for the previous year. Paramount among the membership's responsibilities is the election of members to the Board of Directors, whose terms expire. The meeting will also provide an excellent opportunity to share in comradery with other members and old friends of the Caribe Federal Credit Union family.

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

Thank you for joining us in celebrating Caribe Federal Credit Union's 72nd Anniversary.

Board of Directors  
Caribe Federal Credit Union

# SERVICES OFFERED BY CFCU

## Share Accounts

Regular Savings  
Certificates  
Checking  
Christmas Club  
Cari Kid  
I-Save  
Commercial

## Loans

Personal Unsecured  
Personal Fully Secured  
Line of Credit  
Business  
New Auto  
Used Auto  
Classic Auto  
Transfer  
Auto Balloon  
Boat  
Motorcycle  
Emergency  
Mastercard  
Student Mastercard  
Conventional Mortgage  
VA, Rural and FHA Mortgage  
Personal Mortgage  
Reverse Mortgage  
Land Loan  
Photovoltaic Equipment

## Services

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

Wire Transfers  
Telecaribe  
Caribe Online  
Caribe Bill Pay-e  
Shared Branching  
Caribe Mobile  
International ATM Card  
Free ATM withdrawals with  
Coop24 and ShareNet

## SUPPLEMENTARY PLANS

Offered through Business Alliance  
Insurance Agency, Inc. (BAIA)

- Auto Insurance Products
- Personal and Commercial Insurance Products
- Life Insurance Plan
- Dental Insurance Plan
- Members Financial Assistance
- College Fund
- IRA's

## MISSION

To satisfy our members financial needs.

## VISION

Be the best option in financial products and services.



## KNOW YOUR OFFICIALS

### Board of Directors

Juan M. Masini	Chairman	Attorney at Law/ Notary Public
Benito Rodríguez	1st Vice-Chairman	Attorney at Law/ Notary Public
Porfirio Ríos	2nd Vice-Chairman	US Trustee, DOJ, 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.
Iván O. Puig	Asst. Treasurer	US Postal Service, Ret.
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
Luis Rivera	Member at Large	Engineer

### Supervisory Committee

Roberto Afanador	Chairperson	CPA
Luis Acevedo	Member	Administrator
José E. Camacho	Member	Realtor

### Credit Committee

Juan M. Masini	Chairperson	Attorney at Law/ Notary Public
Celia Ruíz	Member	USDE-IOG, Ret.
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 SEVENTIETH ANNUAL MEETING JUNE 5, 2022

The 70th 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 5, 2022.

### QUORUM DETERMINATION AND CALL TO ORDER

The Quorum was certified by Secretary of the BOD Rafael A. Martínez with 100 members present. Chairman Juan M. Masini-Soler called the meeting to order at 8:30 A.M. He welcomed everyone present at the annual meeting.

The Chairman called member Eric Cordero to deliver the invocation and the dedication of the 70th Annual Meeting and CFCU's 71st anniversary.

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 passed away since our last annual meeting.

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 70th annual meeting and the celebration of CFCU's 71st Anniversary. The Chairman initiated the meeting and presented the members of the Board of Directors the Chairman of the Supervisory Committee, the CEO, the Parliamentary consultant, and the special guests.

### 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 which were handed out to each member in the registration area. The parliamentary rules were approved by the members as presented.

## MINUTES

The Chairman of the Board presented the September 26, 2021, 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 Caribe Federal Credit Union's (CFCU) situation as well as some of the accomplishments and future goals

The Chairman expressed that despite the COVID-19 pandemic, Caribe Federal Credit Union had one of its best years ever. He informed that during 2021, the financial industry increased their assets i.e., Commercial Banks increase by 14.82%, the local credit unions increased by 11.11% and the federal credit unions by 11.12%. During that same period, CFCU increased its assets by 15.15% ranking CFCU as the number one federal credit union of local origin on the island with the most assets of approximately \$587 million as of December 31, 2021.

Masini mentioned that ten years ago, CFCU's assets were approximately \$251, which reflects an increase of more than double the previous asset size as of December 31, 2021. As of today, CFCU has \$615 million in total assets. Notwithstanding, Chairman Masini expressed that the Board of Director's vision is to grow CFUC's assets to no less than one (1) billion dollars and to have the greatest number of credit union members.

Chairman Masini expressed that during 2021, Board of Directors together with management and our external consultants from Intelligence Forecasting Inc developed and implemented a strategic plan focused on achieving the following future objectives:

- 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 or minimize turnovers.
- Aggressively maintain low operational expenses

The Chairman informed that regarding the operations of 2021, it was a difficult year due to the COVID-19 pandemic and the implementation of a new platform for more efficient loan processing. In addition, CFCU was able to implement the digital signature for loan disbursement and the continuous service to members despite the pandemic. Another achievement was the implementation of an appointment system for members to minimize the waiting time. The Call Center hours of operation was extended to better serve our members.

Masini stated regarding CFCU's technology, that we continue to fortify the security in the information system; to provide secure remote work for several employees and the recruitment



of a Cyber Security Officer who is constantly reinforcing the security controls and training employees to identify possible cyber-attacks.

The Chairman also informed on the tasks carried out by the Compliance Department who is responsible of the compliance of NCUA's rules and regulations.

The Chairman mentioned the following plans:

1. Employees total domain of the Meridian Link System and all CFCU products & services.
2. Improve accessibility of products & Services to our members.
3. Improve telephone system.
4. Improve financial relationship with our members.
5. Improve technology.
6. Develop our new 2023-2024 Strategic Plan.

Finally, he mentioned that 2021 was another excellent year with steady growth during the past 71 years and expressed his appreciation to the members, the BOD, the employees, consultant firms of Intelligence Forecasting Inc., and Cancio, Nadal & Rivera. He also expressed his special appreciation to CEO Jorge M. Vadell for the excellent work during 2021-2022 and conveyed special thanks to all the BOD's spouses for their support.

He concluded the report reiterating his commitment as Chairman of the BOD of this magnificent credit union and 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.

### **TREASURER'S REPORT**

Treasurer Ramón A. Negrón welcomed everyone present and began his presentation with CFCU's 2021 financial statements by comparing them to the 2020 financial statements. The financial statements were consolidated with CFCU's subsidiary Business Consortium Alliance (BCA) and its affiliate Business Alliance Insurance Agency (BAIA). The financial statements were audited by Llavona-Casas CPA PSC.

The Treasurer indicated that the financial statements were available to members for their review since May 2, 2021. He informed that Puerto Rico continues to endure a serious economic recession that adversely affects the financial industries, although the help of the federal government has contributed to improve the situation. To make matters worse the COVID 19 Pandemic also affected the economy. He further informed that Puerto Rico needs to coordinate with the Federal Fiscal Control Board (PROMESA) to continue making payments to the debt to reactivate Puerto Rico's economy. Inflation and the interest rate increase are adversely affecting everyone's cost of living.

Negrón said that inflation means a decrease in the value of money which will cause a decrease in product demand. The Federal Reserve's policy to increase interest rates is to increase the cost of borrowing money to reduce inflation.

This year, CFCU has been proactive in taking measures to minimize the spread of Covid. He said that thanks to the measures taken, CFCU maintained a solid financial position and steady growth as you will see in the presentation.

Treasurer Negrón mentioned that CFCU's delinquency has been maintained under .47% which is outstanding and at the same time, the loan portfolio has increased in the amount of \$107 million. CFCU continues to increase the auto loans and personal loans. He reminded the members that CFCU's deposits are insured up to \$250K per member account by NCUA.

The Treasurer provided the following financial break down to the members:

#### TOTAL ASSETS

As of December 31, 2021, CFCU closed with \$587 million in assets, an increase of \$77 million when compared to 2020.

#### ASSET COMPOSITION

The total assets consist of Investments, Cash and Cash Equivalents of \$145 million. CFCU had a total of \$423 million in net loans, which shows an increase of \$107 million when compared to the previous year.

The total Liabilities and Member savings amounted to \$513 million, showing an increase of \$70 million when compared to last year. The equity or reserve on capital reflects the amount of \$63.2 million, an increase of \$5 million in capital.

#### INTEREST INCOME

The Interest Income reflected a total of \$20.2 million. This means that there was an increase of \$2.1 million compared to last year.

#### OPERATIONAL COSTS

The Operational Costs totaled \$11 million, an increase of \$1 million when compared to last year due to new hires, communication improvements, professional services, and the annual meeting expenses.

#### INCOME DISTRIBUTION

The Income Distribution breakdown was as follows: 13.7% to dividend payment, 51.4% for operational expenses, 9.4% for loan losses and 25.4% for net income.

#### 2022 FORECAST

Treasurer Negrón informed that the 2022 forecasted projections were as follow:

1. As the Prime Rate continues to increase CFCU will also adjust increase the interest on loans.
2. Increase in Operational Costs due to salary increase and inflation.
3. A projection of similar income due to the loans originated during 2022.
4. The increase on loan origination due to the new automated system on loan processing.
5. An increase in the dividends paid on CDs and Dividend on Share Accounts.
6. Increase on total Assets (approximately \$700 million).

The Treasurer expressed that despite 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 by the ALCO Committee.

### **CREDIT COMMITTEE REPORT**

Juan M. Masini-Soler, President of the Credit Committee, expressed his greetings and again 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 2021, a year of great challenges although outstanding performance by CFCU.

Chairman Masini-Soler indicated that a total of 14,002 loan applications were considered during the year of which 8,816 were favorably approved, representing a 63% approval rate and 2,649 loan applications were withdrawn representing 19% and 2,537 were rejected representing a 18%.

The breakdown of the originations for 2021 was as follows: secured loans \$6.8 million, partially secured loans \$4.8 million, unsecured loans \$67 million, auto loans \$157 million, motorcycle and boat loans \$251,000, commercial loans \$ 3.9 million and mortgage loans \$10.7 million for a total of \$250 million in approved loans, which is approximately \$4.8 million per week.

As of December 31, 2021, our loan portfolio totaled \$428,522,694 in loans representing approximately \$109 million more than in 2020.

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 from 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, 2021 has been a year of great challenges due to the global economic crisis where CFCU was forced 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 close 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 of Puerto Rico origin. He further expressed that it was very important that when members visit CFCU they feel like they are at home.

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

#### SUPERVISORY COMMITTEE REPORT

Roberto Afanador, Chairman of the Supervisory Committee, introduced each member of the committee. He informed that the duties of the Supervisory Committee are to ensure the following actions:

1. That the credit union complies with applicable federal and local regulations and the requirements and guidelines set forth by NCUA.
2. That the financial goals are met by management.
3. Protect member's assets.
4. Established and maintained effective internal controls to achieve the credit union's financial objectives.
5. Timely prepared accounting records and financial reports to accurately reflect operations and results.
6. Properly administered the relevant plans, policies, and control procedures established by the BOD.
7. Established policies and control procedures that safeguard against error, carelessness, conflict of interest, self-dealing, and fraud.
8. Safeguard the financial objectives of the credit union.

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, 2021 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 Driven PSC, CPA Internal Auditor Harry Santiago to provide internal audit services as required by the Board of Directors and the regulations of NCUA. He mentioned that auditor Zoila N. Rosario oversaw the ACH audits and Víctor Martínez, Esq. performed audits of the Compliance Department to ensure 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 the future workplan.

#### BUSINESS ALLIANCE INSURANCE AGENCY

Business Alliance Insurance Agency's (BAIA), Chairman Emilio M. Colón presented BAIA's BOD members and initiated his presentation expressing that BAIA was a great source to obtain insurance products and financial planning. He presented the auto and home insurance benefits as well as the health insurance coverage options available to the federal employees. He also commented on the importance of financial planning and mentioned the list of options available to all the members. He concluded his report encouraging members to visit BAIA's kiosk to obtain more information on all the products available to members.

#### NOMINATIONS COMMITTEE REPORT

Rafael A. Martínez, member of the Nominations Committee, introduced the members of the committee and excused the President of the committee who could not be present in the annual meeting. He then informed the election process and introduced the four (4) candidates who are running for the Board of Directors:

1. Juan O. Rodríguez
2. Emilio M. Colón
3. Luis Acevedo
4. Alexis E. Agostini

He also gave instructions on the voting process to select three (3) candidates of the four (4) that appear in the electronic ballot. Once each CFCU member casts their vote their wristband will be removed to identify completed votes. He informed that in the event of a tie, the Chairman of the board will cast his vote to break the tie. The voting results will be announced later during the social activity.

#### OLD BUSINESS

Chairman Masini informed that there was no old business pending since the last annual meeting.

## NEW BUSINESS

The following issues were presented by members who were present in the annual meeting:

Caribe Mobile – A member said that Caribe Mobile application does not provide information on Mastercard transactions. CEO Jorge M. Vadell replied that the IT department was working with Banco Cooperativo to provide that information in the future.

Raffle – A member expressed her dissatisfaction with the rule on the raffle process which requires the member to be present at the moment of winning a prize. She commented that she stepped out briefly to complete her room checkout and that she lost the opportunity to claim her prize. Mr. Víctor L. Rosario explained that unfortunately, the rules must be followed.

Service – A member expressed her dissatisfaction with the long wait she had during her visit to the CFCU Hato Rey branch. CEO Vadell expressed his apologies and encouraged the members to submit their observations to the Branch Operations Manager as soon as it happens.

Loan Application – A member expressed his satisfaction during his loan application process. The members of the BOD thanked him for his comment.

BAIA – A member suggested that BAIA should visit workplaces to offer their products & Services. The suggestion was received and will be studied by BAIA's BOD.

Dealer – A member said that when he was trying to purchase a car and start approval process, the dealer's salesman told him that he did not recommend financing with CFCU because of the delay in the auto loan process. The members of the BOD will be discussing this matter to improve the loan process approval time.

Allowance for Loan Losses – A member commented on his observation in the financial statements, specifically on the amount reserved for loan losses which was high when compared to the charged off amount. CEO Vadell replied that CFCU was very conservative and cautious and that's why the estimate for ALL was higher.

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  
SUPPLEMENTARY INFORMATION**

For the years ended  
December 31, 2022 and 2021

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

The Supervisory Committee and Board of Directors  
Caribe Federal Credit Union  
Guaynabo, Puerto Rico

### AUDITORS' OPINION

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, 2022 and 2021, 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 related notes to the financial statements.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2022 and 2021, and the results of its operations, changes in members' equity, comprehensive net income and its cash flows for the years then ended in accordance with generally accepted accounting principles in the United States of America.

### BASIS FOR OPINION

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Credit Union's consolidated financial statements. The consolidating information in pages 44-46 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary 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 supplementary 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 generally accepted auditing standards in the United States of America. In our opinion, the other information is fairly stated in all material respects in relation to the consolidated financial statements as whole.

Guaynabo, Puerto Rico  
March 22, 2023

Stamp No. E-507942  
was affixed to the original.



*LLAVONA-CASAS, CPA PSC*  
LLAVONA-CASAS, CPA PSC

License Number 226  
Expires on December 1, 2024

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

December 31, 2022 and 2021

<b>Assets</b>	<b><u>2022</u></b>	<b><u>2021</u></b>
Cash and cash equivalents	\$ 29,770,086	\$ 32,541,533
Certificates of deposits	14,200,685	35,624,551
Investment securities	52,174,175	76,737,736
Loans to members, net	538,618,231	422,942,972
Accrued interest receivable	1,809,831	1,165,188
Accounts receivable, net	66,357	221,957
Prepaid expenses	348,142	270,930
Property and equipment, net	11,492,280	11,919,924
NCUSIF deposit	5,057,111	4,619,883
Art collections	107,619	92,619
Foreclosed and repossessed assets	273,371	314,023
Other assets	807,688	307,776
Total assets	<u>\$ 654,725,576</u>	<u>\$ 586,759,092</u>
 <b>Liabilities and Members' Equity</b>		
Members' shares accounts	\$ 556,664,893	\$ 512,828,733
Borrowed funds	25,059,983	-
Accounts payable and accrued liabilities	4,472,966	3,206,314
Accounts payable to auto dealers	3,268,284	7,527,319
Total liabilities	<u>589,466,126</u>	<u>523,562,366</u>
 <b>Members' Equity</b>		
Appropriated regular reserve	3,811,746	3,811,746
Unappropriated earnings	64,173,529	60,081,837
Accumulated other comprehensive (loss)	(2,725,825)	(696,857)
Total members' equity	<u>65,259,450</u>	<u>63,196,726</u>
Total liabilities and members' equity	<u>\$ 654,725,576</u>	<u>\$ 586,759,092</u>

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

**CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES**

For the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Interest income:		
Interest and fees on loans	\$ 30,279,326	\$ 19,523,634
Interest on investments	381,035	708,088
Total interest income	<u>30,660,361</u>	<u>20,231,722</u>
Interest expense:		
Interest and dividends on members' shares and savings accounts	<u>6,186,444</u>	<u>2,933,470</u>
Net interest income	24,473,917	17,298,252
Provision for loan losses	<u>(8,264,960)</u>	<u>(2,017,254)</u>
Net interest income after provision for loan losses	<u>16,208,957</u>	<u>15,280,998</u>
Service fee and non-interest income	<u>1,316,320</u>	<u>1,130,819</u>
Non-interest expenses:		
Compensation and benefits	7,169,275	5,756,743
Occupancy and related	2,947,002	2,667,802
Other	3,317,308	2,555,722
Total non-interest expenses	<u>13,433,585</u>	<u>10,980,267</u>
<b>Net income</b>	<u>\$ 4,091,692</u>	<u>\$ 5,431,550</u>

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, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
Net income	\$ 4,091,692	\$ 5,431,550
Other comprehensive income:		
Unrealized holding (loss) on investment securities available for sale	(2,028,968)	(712,318)
Total comprehensive income	<u>\$ 2,062,724</u>	<u>\$ 4,719,232</u>

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, 2022 and 2021

	Appropriated Regular Reserve	Unappropriated Earnings	Accumulated Other Comprehensive gain (loss)	Total
Balance, December 31, 2020	\$ 3,811,746	\$ 54,650,287	\$ 15,461	\$ 58,477,494
Net income	-	5,431,550	-	5,431,550
Net unrealized loss on investment securities available-for-sale	-	-	(712,318)	(712,318)
Balance, December 31, 2021	3,811,746	60,081,837	(696,857)	63,196,726
Net income	-	4,091,692	-	4,091,692
Net unrealized loss on investment securities available-for-sale	-	-	(2,028,968)	(2,028,968)
Balance, December 31, 2022	\$ 3,811,746	\$ 64,173,529	\$ (2,725,825)	\$ 65,259,450

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended on December 31, 2022 and 2021

	<b>2022</b>	<b>2021</b>
Cash flows from operating activities:		
Net income	\$ 4,091,692	\$ 5,431,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	885,289	880,963
(Accretion)/Amortization of deferred loan origination fees, net	(365)	(39,507)
(Gain) on sale of mortgage loans held-for-sale	(61,769)	(193,766)
Loss/(gain) on disposition of other assets	4,748	(29,341)
(Gain) from sale of repossessed assets	(109,436)	(162,300)
Amortization of premium/discount on investment securities, net	47,558	591
Capitalized interest on certificate of deposit	-	80
Provision for possible loan losses	8,264,960	2,017,254
Proceeds from sale of mortgage loans held-for-sale	3,578,192	9,464,097
Recoveries of loans previously charged-off	545,373	440,277
Dividends credited on members' shares accounts	5,756,880	2,988,110
(Increase)/decrease in assets:		
Accrued interest receivable	(644,643)	(97,980)
Accounts receivable, net	155,600	(90,660)
Prepaid expenses	(78,643)	28,104
Other assets	(498,481)	499,162
(Decrease)/increase in liabilities:		
Accounts payable and accrued liabilities	26,326,635	(533,022)
Accounts payable to auto dealers	(4,259,035)	2,663,788
Total adjustments	<u>39,912,863</u>	<u>17,835,850</u>
Net cash provided by operating activities	<u>44,004,555</u>	<u>23,267,400</u>
Cash flows from investing activities:		
Net decrease in certificates of deposit	21,423,866	28,807,839
Acquisition of investment securities	(32,712,965)	(96,400,000)
Proceeds from maturities of investment securities	55,200,000	113,784,780
Net increases in loans to members	(128,001,650)	(118,886,448)
Acquisitions of property and equipment	(462,393)	(424,514)
Acquisition of art collections	(15,000)	-
Proceeds from sale of repossessed assets	150,088	47,055
Deposit in NCUSIF	(437,228)	(853,818)
Net cash used in investing activities	<u>(84,855,282)</u>	<u>(73,925,106)</u>
Cash flows from financing activities:		
Net increase in shares accounts	38,079,280	67,371,639
Net cash provided by financing activities	<u>38,079,280</u>	<u>67,371,639</u>
Net (decrease) increase in cash and cash equivalents	(2,771,447)	16,713,933
Cash and cash equivalents at beginning of year	<u>32,541,533</u>	<u>15,827,600</u>
Cash and cash equivalents at end of year	<u>\$ 29,770,086</u>	<u>\$ 32,541,533</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended on December 31, 2022 and 2021

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**Supplemental Disclosures of Cash Flow Information**

Interest and dividend paid for the years ended December 31, 2022 and 2021 was \$6,094,546 and \$2,948,830, respectively.

Also, during the years ended December 31, 2022 and 2021, unrealized gain (loss) on securities available-for-sale were recognized for (\$2,028,968) and (\$712,318), 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 year ended December 31, 2022, there was no transfers of loans, net to other real estate owned. During the year ended December 31, 2021, the transfers of loans, net to other real estate owned was \$285,111.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended on December 31, 2022 and 2021

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### 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 with generally accepted accounting principles 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

Certain figures in the accompanying 2021 financial statements were reclassified to conform to the 2022 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 \$18,640,577 and \$23,726,247 exceeded the amounts covered by federal depository insurance limits for the years ended December 31, 2022, and 2021, respectively. There was no bank balance of deposits exceeding the NCUA depository insurance limits at both December 31, 2022, and 2021, and the balance of deposits in *Banco Cooperativo* amounting to \$1,557,350 and \$905,858 on December 31, 2022 and 2021, respectively, 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 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

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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.

Securities held-to-maturity

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.

Securities available-for-sale

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

Other than temporary decline in the fair market value

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 it is 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 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 receivables 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, 2022 and 2021.

### **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.

### **Operating Leases**

Lease contracts, which were identified as operating leases, are recognized in the statement of financial position as “Right-Of-Use assets” (ROU) and in liabilities as “Lease liabilities”, for those with terms longer than one year. Lease liabilities and their corresponding “ROU” assets are initially recorded based on the present value of future lease payments, during the expected term of the lease. An incremental borrowing rate is used, which is the rate that is incurred to borrow on a guaranteed basis, over a similar term in an amount equal to the lease payments. The ROU asset could include the initial direct costs paid for the lease and any incentives paid to the lessor. During the year ended December 31, 2022, most leases were classified as operating and, as a result, a lease expense was recognized within operating expenses. Leased property, which includes various rent payments made

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

during the lease term and that are not based on a rate or index, are excluded from the measurement of "ROU" assets and lease liabilities and are recognized as lease expense 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.

**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 2022 and 2021.

**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 expensed as incurred.

**Federal and State Income Taxes**

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**3. CASH AND CASH EQUIVALENTS**

As of December 31, 2022, and 2021, the balance of cash and cash equivalents consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash in banks	\$ 16,871,854	\$ 19,678,135
Treasury Bills with original maturity of less than 90 days	11,437,930	11,694,413
Petty cash	-	200
Change Fund	1,460,302	1,168,785
Total cash and cash equivalents	<u>\$ 29,770,086</u>	<u>\$ 32,541,533</u>

**4. CERTIFICATES OF DEPOSITS**

As of December 31, 2022, and 2021, the Credit Union maintains certificates of deposits mostly in denominations of \$250,000. The schedules maturities are as follows:

	<u>2022</u>	<u>2021</u>
Due in one year or less	\$ 13,203,685	\$ 21,194,551
Due after one year through three years	997,000	14,430,000
Total certificates of deposits	<u>\$ 14,200,685</u>	<u>\$ 35,624,551</u>

**5. INVESTMENT SECURITIES**

At December 31, 2022 and 2021 the investment securities were as follows:

	<u>2022</u>	<u>2021</u>
Investment securities:		
Available for Sale	\$ 52,174,175	\$ 69,738,143
Held to maturity	-	6,999,593
Total investment securities	<u>\$ 52,174,175</u>	<u>\$ 76,737,736</u>

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Caribe Federal Credit Union  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended on December 31, 2022 and 2021

**5. INVESTMENT SECURITIES (CONTINUED)**

As of December 31, 2022, and 2021, the amortized cost and the estimate fair market value of investment securities available-for-sale and held-to-maturity are as follows:

<u>2022</u>				
<u>Available for sale:</u>				
<u>Type of Investment</u>	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Market Value</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 3,100,000	\$ -	\$ (106,203)	\$ 2,993,797
Federal Home Loan Bank (FHLB)	35,700,000	-	(1,960,313)	33,739,687
Federal Farm Credit Bank (FFCB)	16,100,000	-	(659,309)	15,440,691
Total	<u>\$ 54,900,000</u>	<u>\$ -</u>	<u>\$ (2,725,825)</u>	<u>\$ 52,174,175</u>

<u>2021</u>				
<u>Available for sale:</u>				
<u>Type of Investment</u>	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Market Value</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 7,735,000	\$ -	\$ (28,693)	\$ 7,706,307
Federal Home Loan Bank (FHLB)	39,100,000	-	(491,494)	38,608,506
Federal Farm Credit Bank (FFCB)	23,600,000	-	(176,670)	23,423,330
Total	<u>\$ 70,435,000</u>	<u>\$ -</u>	<u>\$ (696,857)</u>	<u>\$ 69,738,143</u>

<u>Held to maturity:</u>				
<u>Type of Investment</u>	<u>Amortized Cost</u>	<u>Unrealized Gain</u>	<u>Unrealized Loss</u>	<u>Market Value</u>
Federal Farm Credit Bank (FFCB)	\$ 1,500,000	\$ 1,362	\$ -	\$ 1,501,362
United States Treasury Bills	5,499,593	78	(12)	5,499,659
Total	<u>\$ 6,999,593</u>	<u>\$ 1,440</u>	<u>\$ (12)</u>	<u>\$ 7,001,021</u>

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**5. INVESTMENT SECURITIES (CONTINUED)**

The amortized cost and estimated fair value of investment securities, on December 31, 2022 and 2021, by contractual maturity, are shown below. Investment expected maturities may differ from original contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Due Date	2022		2021	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$ 22,200,000	\$ 21,527,215	\$ 19,034,593	\$ 19,022,900
Due after one year through three years	32,700,000	30,646,960	58,400,000	57,716,264
Total	<u>\$ 54,900,000</u>	<u>\$ 52,174,175</u>	<u>\$ 77,434,593</u>	<u>\$ 76,739,164</u>

**As of December 31, 2022**

Description of Securities	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 2,993,797	\$ (106,203)	\$ -	\$ -	\$ 2,993,797	\$ (106,203)
Federal Home Loan Bank (FHLB)	7,260,695	(239,305)	26,478,993	(1,721,007)	33,739,688	(1,960,312)
Federal Farm Credit Bank (FFCB)	11,272,723	(327,277)	4,167,967	(332,033)	15,440,690	(659,310)
Total	<u>\$ 21,527,215</u>	<u>\$ (672,785)</u>	<u>\$ 30,646,960</u>	<u>\$ (2,053,040)</u>	<u>\$ 52,174,175</u>	<u>\$ (2,725,825)</u>

**As of December 31, 2021**

Description of Securities	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 7,706,307	\$ (28,693)	\$ -	\$ -	\$ 7,706,307	\$ (28,693)
Federal Home Loan Bank (FHLB)	38,608,506	(491,494)	-	-	38,608,506	(491,494)
Federal Farm Credit Bank (FFCB)	23,423,330	(176,670)	-	-	23,423,330	(176,670)
Total	<u>\$ 69,738,143</u>	<u>\$ (696,857)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 69,738,143</u>	<u>\$ (696,857)</u>

Unrealized losses as of December 31, 2022 and 2021 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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS**

As of December 31, 2022, and 2021, the portfolio of loans of the Credit Union by type is as follows:

	<u>2022</u>	<u>2021</u>
<b>Loans to members:</b>		
<u>Commercial:</u>		
Corporations and individuals	\$ 20,860,981	\$ 25,018,256
Total commercial	<u>20,860,981</u>	<u>25,018,256</u>
<u>Consumer:</u>		
Unsecured	153,813,342	115,230,930
Mortgage	23,208,097	23,077,540
Auto	324,362,315	244,555,711
Share secured loans	11,429,303	9,807,585
Credit cards	12,915,650	10,505,676
Lines of credit	395,610	326,996
Total consumer	<u>526,124,317</u>	<u>403,504,438</u>
Total loans	546,985,298	428,522,694
Less: Allowance for loan losses	(7,924,875)	(5,137,166)
Less: Net unamortized deferred origination fees	(442,192)	(442,556)
Total loans to members, net	<u>\$ 538,618,231</u>	<u>\$ 422,942,972</u>

**Loans Held for Sale**

At December 31, 2022 and 2021, the outstanding balance of the mortgage loans held for sale was \$0 and \$140,000, respectively. These loans carried net unamortized deferred origination fees of \$2,105 for a net loan held for sale balance of \$137,895 as of December 31, 2021. During the year ended December 2022 and 2021, proceeds from loans held for sale were \$3,578,192 and \$9,464,097, respectively, and a net gain of \$61,769 and \$193,766, respectively, were recognized during the years then ended, which are included within interest and fees on loans.

**COVID 19 Moratoriums on Loan Repayments**

In working with borrowers affected by the COVID 19 pandemic, the Credit Union has agreed to let consumer borrowers that were current in their payments or no more than 2 payments in arrears to defer payments on their loans in some cases for up to six months but not beyond September 30, 2020, with few exceptions. For both consumer and residential mortgage loans subject to the deferral programs, each borrower was required to begin making their regularly scheduled loan payment at

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

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**6. LOANS (CONTINUED)**

the end of the deferral period and the deferred amounts were moved to the end of the loan. The payment deferral programs were applied prospectively beginning, in some instances, with the scheduled contractual payment due in March. For commercial loans, any request for payment deferral, including extensions of the repayment moratorium, is analyzed on a case -by case basis. Moratoriums on loan repayments for consumer and residential mortgage products in Puerto Rico were mandated by local law. A loan modification under these dispositions is not required to be considered as a TDR loan. The deferred repayment arrangements as of December 31, 2021 were 68 loans, totaling approximately \$305,254. As of December 31, 2022, the deferred repayment arrangements were 58 loans, totaling approximately \$242,068.

**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 1.45% and 1.20% of the outstanding loans portfolio is required by policy for the year ended December 31, 2022 and 2021, respectively. To determine the total allowance for loan losses, management estimates the provision needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a collectively basis.

The allowance for loan losses consists of amounts applicable to: (1) consumer loans (personal auto, mortgage, line of credit and credit card) and (2) commercial loans portfolios.

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

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

**6. LOANS (CONTINUED)**

**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;
- 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;

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)**

- 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 at December 31, 2022 and 2021, by portfolio segment is as follows:

	<u>2022</u>		
	Commercial	Consumer	Total
Beginning balance	\$ 579,338	\$ 4,557,828	\$ 5,137,166
Provision during the year	(376,467)	8,641,427	8,264,960
Recoveries of loans previously charged-off	-	545,373	545,373
Loans charge-offs	-	(6,022,624)	(6,022,624)
Ending balance	<u>\$ 202,871</u>	<u>\$ 7,722,004</u>	<u>\$ 7,924,875</u>
Evaluation of Allowance:			
Allowance evaluated individually	\$ 1,177	\$ 340,356	\$ 341,533
Allowance evaluated collectively	201,694	7,381,648	7,583,342
Total	<u>\$ 202,871</u>	<u>\$ 7,722,004</u>	<u>\$ 7,924,875</u>
Loan Ending Balance:			
Evaluated individually for impairment	\$ 1,571,181	\$ 2,079,350	\$ 3,650,531
Evaluated collectively for impairment	19,289,800	524,044,967	543,334,767
Total	<u>\$ 20,860,981</u>	<u>\$ 526,124,317</u>	<u>\$ 546,985,298</u>

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Caribe Federal Credit Union  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)**

	<u>2021</u>		
	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 1,828,023	\$ 2,013,539	\$ 3,841,562
Provision during the year	(1,248,685)	3,265,939	2,017,254
Recoveries of loans previously charged-off	-	440,278	440,278
Loans charge-offs	-	(1,161,928)	(1,161,928)
Ending balance	<u>\$ 579,338</u>	<u>\$ 4,557,828</u>	<u>\$ 5,137,166</u>
Evaluation of Allowance:			
Allowance evaluated individually	\$ 171,214	\$ 259,482	\$ 430,696
Allowance evaluated collectively	408,124	4,298,346	4,706,470
Total	<u>\$ 579,338</u>	<u>\$ 4,557,828</u>	<u>\$ 5,137,166</u>
Loan Ending Balance:			
Evaluated individually for impairment	\$ 2,139,765	\$ 1,066,815	\$ 3,206,580
Evaluated collectively for impairment	22,878,491	402,437,623	425,316,114
Total	<u>\$ 25,018,256</u>	<u>\$ 403,504,438</u>	<u>\$ 428,522,694</u>

**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 \$512,331 and \$1,849,740, on December 31, 2022, and 2021, respectively. If interest on those had been accrued, such income would have approximately \$23,096 and \$525,077, at December 31, 2022 and 2021, respectively.

The following table summarizes the aging of the loans' receivable portfolio at December 31, 2022 and 2021:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)****Age Analysis of Loan to members Receivables by Category as of  
December 31, 2022**

<b>December 31, 2022</b>	Current or				Over 90
	0-59	60-89	Over 89	Total	Non Accruing
Unsecured	\$ 153,573,607	\$ 167,642	\$ 72,093	\$ 153,813,342	\$ 72,093
Mortgage	23,068,230	-	139,867	23,208,097	139,867
Auto	323,329,537	885,888	146,890	324,362,315	146,890
Share secured loans	11,429,303	-	-	11,429,303	-
Credit cards	12,904,262	11,388	-	12,915,650	-
Lines of credit	395,610	-	-	395,610	-
Total consumer loans	524,700,549	1,064,918	358,850	526,124,317	358,850
Commercial	19,289,800	1,417,700	153,481	20,860,981	153,481
Total loans to members	\$ 543,990,349	\$ 2,482,618	\$ 512,331	\$ 546,985,298	\$ 512,331

**Age Analysis of Loan to members Receivables by Category as of  
December 31, 2021**

<b>December 31, 2021</b>	Current or				Over 90
	0-59	60-89	Over 89	Total	Non Accruing
Unsecured	\$ 115,112,920	\$ 105,000	\$ 13,010	\$ 115,230,930	\$ 67,502
Mortgage	22,899,538	36,156	141,846	23,077,540	141,846
Auto	244,462,352	64,165	29,194	244,555,711	53,687
Share secured loans	9,807,585	-	-	9,807,585	-
Credit cards	10,473,393	26,501	5,782	10,505,676	27,629
Lines of credit	326,996	-	-	326,996	-
Total consumer loans	403,082,784	231,822	189,832	403,504,438	290,664
Commercial	23,445,235	13,945	1,559,076	25,018,256	1,559,076
Total loans to members	\$ 426,528,019	\$ 245,767	\$ 1,748,908	\$ 428,522,694	\$ 1,849,740

**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.

## 6. LOANS (CONTINUED)

### 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.

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, 2022 and 2021.

Credit Quality Levels	December 31, 2022		December 31, 2021	
	Loans Balance	%	Loans Balance	%
Upper Level	\$ 404,078,234	78%	\$ 338,406,960	85%
Middle Level	70,506,624	14%	39,969,955	10%
Lower Level	44,845,125	9%	20,923,333	5%
	519,429,983	100%	399,300,248	100%
Credit score not available	6,694,334		4,204,190	
Total consumer loans	\$ 526,124,317		\$ 403,504,438	

**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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)**

**Special Mention** - The loan has potential weaknesses, 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.

**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, 2022 and 2021 and based on the most recent analysis performed, the risk category of loans is as follows:

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	\$ 20,707,500	\$ -	\$ 153,481	\$ -	\$ 20,860,981
Total commercial	<u>\$ 20,707,500</u>	<u>\$ -</u>	<u>\$ 153,481</u>	<u>\$ -</u>	<u>\$ 20,860,981</u>

	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	\$ 23,300,799	\$ -	\$ 158,381	\$ 1,559,076	\$ 25,018,256
Total commercial	<u>\$ 23,300,799</u>	<u>\$ -</u>	<u>\$ 158,381</u>	<u>\$ 1,559,076</u>	<u>\$ 25,018,256</u>

**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.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)**

	<b>Impaired Loans by Category for the year ended December 31, 2022</b>		<b>Impaired Loans by Category for the year ended December 31, 2021</b>	
	<b>Unpaid Principal of Impaired Loans (cases)</b>	<b>Specific Associated Allowance for the Impaired Loan (Cases)</b>	<b>Unpaid Principal of Impaired Loans (cases)</b>	<b>Specific Associated Allowance for the Impaired Loan (Cases)</b>
Consumer:				
Unsecured	\$ 486,906	\$ 66,653	\$ 237,879	\$ 101,659
Mortgage	456,462	46,480	715,669	64,895
Line of credit	24,902	2,490	-	-
Auto	1,073,907	219,734	76,348	62,483
Credit cards	37,173	4,999	36,919	30,445
Total consumer	<u>2,079,350</u>	<u>340,356</u>	<u>1,066,815</u>	<u>259,482</u>
Commercial	<u>1,571,181</u>	<u>1,177</u>	<u>2,139,765</u>	<u>171,214</u>
Total	<u>\$ 3,650,531</u>	<u>\$ 341,533</u>	<u>\$ 3,206,580</u>	<u>\$ 430,696</u>

Loans secured by collateral consist of \$390,158,861 and of \$314,064,934 for 2022 and 2021, 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)**

The following table presents the restructured loans by category at December 31, 2022 and 2021:

	<b>For the year ended December 31, 2022</b>					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Mortgage	5	\$ 316,595	\$ 46,480	-	-	-
Total consumer loans	5	316,595	46,480	-	-	-
Total	5	\$ 316,595	\$ 46,480	-	\$ -	\$ -

	<b>For the year ended December 31, 2021</b>					
	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Mortgage	6	\$ 537,667	\$ 49,689	-	-	-
Total consumer loans	6	537,667	49,689	-	-	-
Commercial	2	408,353	48,153	-	-	-
Total	8	\$ 946,020	\$ 97,842	-	\$ -	\$ -

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**6. LOANS (CONTINUED)****Loans to Related Parties**

Certain officers, directors, and employees of the Credit Union had loans and share accounts with the Credit Union during 2022 and 2021. 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 and shares to these related parties at December 31, 2022 and 2021, are as follow:

	<u>2022</u>	<u>2021</u>
Beginning balance of loans	\$ 2,565,018	\$ 2,402,287
Originations	1,240,451	1,233,637
Recoveries	(1,030,193)	(1,070,906)
Ending balance of loans	<u>\$ 2,775,276</u>	<u>\$ 2,565,018</u>
Shares	<u>\$ 4,017,423</u>	<u>\$ 4,227,544</u>

**7. ACCRUED INTEREST RECEIVABLE**

At December 31, 2022 and 2021, the following are the components of accrued interest receivable:

	<u>2022</u>	<u>2021</u>
Accrued interests on loans	\$ 1,773,818	\$ 1,092,640
Accrued interests on investments	<u>36,013</u>	<u>72,548</u>
Total accrued interest receivable	<u>\$ 1,809,831</u>	<u>\$ 1,165,188</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**8. PROPERTY AND EQUIPMENT**

As of December 31, 2022, and 2021, the property and equipment were composed of the following:

	Useful Life (in Years)	2022	2021
Buildings	40	\$ 12,808,873	\$ 12,808,873
Furniture and fixtures	1-5	1,560,900	1,418,955
Office equipment, principally information systems	1-5	4,476,117	4,160,416
		<u>18,845,890</u>	<u>18,388,244</u>
Less accumulated depreciation and amortization		(9,935,155)	(9,049,865)
		<u>8,910,735</u>	<u>9,338,379</u>
Land		2,581,545	2,581,545
Total property and equipment		<u>\$ 11,492,280</u>	<u>\$ 11,919,924</u>

Depreciation and amortization expense charged to operations was approximately \$885,289 and \$880,963 for the years ended December 31, 2022 and 2021, respectively.

**9. FORECLOSED AND REPOSSESSED ASSETS**

As of December 31, 2022, and 2021, the foreclosure and repossessed assets are as follow:

	2022	2021
Balance, beginning of year	\$ 314,023	\$ 536,695
Repossessed assets during the year	440,741	362,750
Sale of repossessed assets	(481,393)	(585,422)
Balance, ending of year	<u>\$ 273,371</u>	<u>\$ 314,023</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**10. OTHER ASSETS**

As of December 31, 2022, and 2021, the other assets were composed of the following:

	<u>2022</u>	<u>2021</u>
Deposits in Banco Cooperativo	\$ 179,819	\$ 137,066
Investment in FHLB NY	56,100	62,700
Deposits for annual meeting	27,500	27,500
Others	544,269	80,510
Total other assets	<u>\$ 807,688</u>	<u>\$ 307,776</u>

**11. MEMBERS' SHARES ACCOUNTS**

As of December 31, 2022, and 2021, members' shares accounts are summarized as follows:

	Weighted-Average Dividend Rate at December 31,	<u>2022</u>	<u>2021</u>
Shares drafts	0.05%	\$ 28,324,395	\$ 27,058,645
Regular shares (excluding escrow shares)	1.07%	416,433,682	428,931,282
Share certificates:	1.45%		
0.00% - 2.00%		32,238,250	48,378,268
2.01% - 3.00%		38,329,691	8,460,538
3.01% - 4.99%		41,338,875	-
		<u>111,906,816</u>	<u>56,838,806</u>
Total members shares accounts		<u>\$ 556,664,893</u>	<u>\$ 512,828,733</u>

As of December 31, 2022, and 2021, the NCUA insured, and Credit Union shares members' accounts up to \$250,000.

The composition of insured and uninsured members' shares and deposits balances at December 31, 2022 and 2021 follows:

<u>Type</u>	<u>2022</u>	<u>2021</u>
Uninsured member shares and deposits	\$ 39,658,071	\$ 33,438,552
Insured member shares and deposits	517,833,750	479,933,457
Insured escrow	(826,928)	(543,276)
Total share and share certificates accounts	<u>\$ 556,664,893</u>	<u>\$ 512,828,733</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**11. MEMBERS' SHARES ACCOUNTS (CONTINUED)**

At December 31, 2022, scheduled maturities of share certificates are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2023	\$ 49,895,936
2024	24,270,561
2025	20,198,184
2026	9,553,137
2027	7,988,998
	<u>\$ 111,906,816</u>

Dividends expense on members' shares accounts for the years ended December 31, 2022 and 2021 is summarized as follows:

<u>Type</u>	<u>2022</u>	<u>2021</u>
Regular shares	\$ 4,671,357	\$ 2,192,706
Share drafts	12,241	11,724
Share certificates	1,073,282	729,040
Total dividend expense on members' shares and savings	<u>\$ 5,756,880</u>	<u>\$ 2,933,470</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As of December 31, 2022, and 2021 the composition of accounts payable and accrued liabilities is as follows:

	<u>2022</u>	<u>2021</u>
Dividends payable	\$ 117,344	\$ 25,446
Accrued payroll and related	436,051	354,691
Annual members' meeting	100,000	100,000
Accounts payable - trade	81,908	63,037
Accounts payable - ATM	319,878	72,979
Escrow accounts	826,928	543,276
Other accruals	2,590,857	2,046,885
Total accounts payable and accrued liabilities	<u>\$ 4,472,966</u>	<u>\$ 3,206,314</u>

**13. SERVICE FEE AND NON-INTEREST INCOME**

Service fee and non-interest income for the years ended December 31, 2022 and 2021 are as follows:

	<u>2022</u>	<u>2021</u>
ATM card fees and charges, net	\$ 241,327	\$ 204,599
Master card fees and charges, net	11,203	(23,720)
Other fees, charges and expenses	423,820	548,302
Sponsorships other	247,150	157,962
CDFI Grant	59,884	-
Other non-interest income	31,777	17,150
	1,015,161	904,293
Non-interest income from BCA	301,159	226,526
Total service fee and non-interest income	<u>\$ 1,316,320</u>	<u>\$ 1,130,819</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**14. NON-INTEREST EXPENSES**

The detail of non-interest expenses for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
<b>Compensation and benefits</b>	<u>\$ 7,169,275</u>	<u>\$ 5,756,743</u>
<b>Occupancy and related:</b>		
Depreciation and amortization	885,289	880,963
Occupancy and utilities	466,864	355,099
Communications	465,282	453,618
Insurance	392,816	393,680
Rent	36,330	35,483
Repairs and maintenance	505,732	385,546
Security	<u>194,689</u>	<u>163,413</u>
	<u>2,947,002</u>	<u>2,667,802</u>
<b>Other operating expenses:</b>		
Professional services and contracted services	904,933	843,062
Education and promotional	631,686	482,775
Loan servicing and collection	510,517	444,457
Annual meeting	209,391	191,290
Monthly statements	179,014	169,477
Bank service charges	112,213	84,815
Federal operating	91,301	98,592
Office supplies	87,290	75,151
Commission and fees	43,428	45,010
Travel and conferences	161,407	32,605
Employees activities	14,549	13,201
(Gain) on disposition of assets	(104,688)	(191,642)
Loss on sale investments securities	173,520	-
Dues and subscriptions	34,095	32,713
Other miscellaneous	<u>268,652</u>	<u>234,216</u>
Total other operating expenses	<u>3,317,308</u>	<u>2,555,722</u>
Total non-interest expenses	<u>\$ 13,433,585</u>	<u>\$ 10,980,267</u>

**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 62<sup>nd</sup> 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, 2022 and 2021, the Credit Union contributed \$181,697 and \$161,009, respectively, to the pension plan.

**16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES**

**Fiscal Crisis**

The Commonwealth remains amid a profound fiscal crisis affecting the central government and many of its instrumentalities, public corporations and municipalities. This fiscal crisis has been primarily the result of economic contraction, persistent and significant budget deficits, a high debt burden, unfunded legacy obligations, and lack of access to the capital markets, among other factors. As a result of the crisis, the Commonwealth and certain of its instrumentalities have been unable to make debt service payments on their outstanding bonds and notes since 2016. The escalating fiscal and economic crisis and imminent widespread defaults prompted the U.S. Congress to enact the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA") in June 2016. The Commonwealth and several of its instrumentalities are currently in the process of restructuring their debts through the debt restructuring mechanisms provided by PROMESA.

**Exposure of the Credit Union**

The credit quality of Credit Union's loan portfolio reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. The effects of the prolonged recession have been reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. While PROMESA provides a process to address the Commonwealth's fiscal crisis, the length and complexity of the Title III proceedings for the Commonwealth and various of its instrumentalities and the adjustment measures required by the fiscal plans present significant economic risks. In addition, the measures taken to address the fiscal crisis and those that will have to be taken in the near future will likely affect many of our individual customers and customers' businesses, which could cause credit losses that adversely affect us and may negatively affect consumer confidence. This, in turn, could result in reductions in consumer spending that may also adversely impact our interest and non-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)**

interest revenues. If global or local economic conditions worsen or the Government of Puerto Rico and the Oversight Board are unable to adequately manage the Commonwealth's fiscal and economic challenges, including by consummating an orderly restructuring of its debt obligations while continuing to provide essential services, these adverse effects could continue or worsen in ways that we are not able to predict.

The accompanying financial statements do not include adjustments related to the effect of the uncertainty related to the Commonwealth's economic conditions and their effects on the Credit Union.

**Interest Rate Risk**

Interest rate risk is the exposure of a credit union's current or future revenues and capital to adverse changes in market rates. This risk is a normal part of the risks handled by financial institutions and Credit Unions. The correct management of this risk results in an important source of profitability and value for the Credit Unions; however, excessive interest rate risk can put pressure on revenues, capital, liquidity, and the solvency of the financial institutions. During the year ended December 31, 2022, the effect of the monetary policy of the Federal Reserve Bank, in relation to the speed of increases in interest rates, has put pressure on the balance sheets of the financial institutions in general, specifically on the aforementioned lines. As of December 31, 2022, the Credit Union was closely measuring and monitoring this risk, in order to effectively anticipate and control any adverse effect that may arise on exposure to it.

**Litigation**

The Credit Union maintains several claims against third parties, mainly demanding 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.

**Loan Commitments**

At December 31, 2022 and 2021, the Credit Union had outstanding the following commitments to extended credit with its members:

<u>Lines of Credit</u>	<u>2022</u>	<u>2021</u>
Commercial	\$ 1,684,534	\$ 964,403
Consumer	1,165,690	1,214,304
Credit Cards	34,705,593	29,241,012
	<u>\$ 37,555,817</u>	<u>\$ 31,419,719</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

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**16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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, 2022, and 2021, payments amounted to \$3,268,284 and \$7,527,319, respectively, and are recorded as accounts payable to dealers in the accompanying financial statements.

**Off-Balance Sheet Risk**

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.

**Line of Credit**

The Credit Union has a line of credit facility with two financial institutions. As of December 31, 2022, the outstanding balance of \$25,059,983. With certain exceptions, substantially all assets of the Credit Union serve as collateral for the line of credit facility. The unused amount was \$48,289,164 as of December 31, 2022. Interest is charged when applicable based on the advance term, usually below prime rate. Interest expense for the year ended December 31, 2022 amounted to \$429,564.

**Lease Commitments**

Business Alliance Insurance Agency (BAIA) leases an office facility on a month-to-month basis to an unrelated party. On October 1, 2020, BAIA renewed this lease agreement for 25 additional months.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

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**16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)**

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, 2022 and 2021, the rental expense for this lease was approximately \$22,598 and \$21,284, 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, 2022 are \$30,600.

**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 at December 31, 2022 and 2021:

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

	<b>December 31, 2022</b>		<b>December 31, 2021</b>	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 29,770,086	\$ 29,770,086	\$ 32,541,533	\$ 32,541,533
Certificates of deposits	14,200,685	14,200,685	35,624,551	35,624,551
Investment securities	52,174,175	52,174,175	76,737,736	76,739,164
Loans receivable (net of unamortized deferred origination fees)	538,618,231	487,753,996	422,942,972	374,295,599
Accrued interest receivable	1,809,831	1,809,831	1,165,188	1,165,188
Assets acquired in liquidation of loans	273,371	273,371	314,023	314,023
	<u>\$ 636,846,379</u>	<u>\$ 585,982,144</u>	<u>\$ 569,326,003</u>	<u>\$ 520,680,058</u>
Financial Liabilities				
Members' shares accounts	<u>\$ 556,664,893</u>	<u>556,664,893</u>	<u>\$ 512,828,733</u>	<u>512,828,733</u>
Off-Balance Sheet Financial:				
Commitments to extend credit	<u>\$ 37,555,817</u>	<u>\$ 37,555,817</u>	<u>\$ 31,419,719</u>	<u>\$ 31,419,719</u>

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

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

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

- **Cash and cash equivalents**- The carrying amount approximates fair value due to the short-term nature of these instruments.
- **Certificates of Deposit**- For long-term certificates of deposit, fair value has been determined discounting the principal and interest to be received at rates currently offered by other financial institutions for certificates with similar terms and characteristics.
- **Investment securities**- Fair values have been determined using quoted market prices for all investment securities.
- **Accrued Interest Receivable**- The fair value of the accrued interest receivable approximates the carrying amount in the financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)**

- Members' shares accounts:

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

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

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

**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, 2022 and 2021 are as follows:

Asset Class	Fair Value	Fair Value Measurement At Reporting Date Using:		
		Level 1	Level 2	Level 3
<b>December 31, 2022</b>				
Available-for-sale securities	\$ 52,174,175	\$ -	\$ 52,174,175	-
Assets acquired in liquidation of loans	\$ 273,371	-	-	\$ 273,371
<b>December 31, 2021</b>				
Available for sale securities	\$ 69,738,143	\$ -	\$ 69,738,143	-
Held-to-maturity securities	\$ 7,001,021	\$ -	\$ 7,001,021	-
Assets acquired in liquidation of loans	\$ 314,023	-	-	\$ 314,023

**18. REGULATORY CAPITAL**

The Credit Union is subject to various regulatory capital requirements administered by its primary federal regulator, the NCUA. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under the capital adequacy guidelines 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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

**18. REGULATORY CAPITAL (CONTINUED)**

under GAAP. 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.

Effective January 1, 2022, federally insured, natural-person credit unions defined as “complex” will have to comply with the NCUA’s risk-based capital (“RBC”) final rule which amends NCUA’s Prompt Corrective Action (“PCA”) regulations, part 702, or the newly created Complex Credit Union Leverage Ratio (“CCULR”) rule. A credit union is defined as “complex” if the credit union’s quarter-end total assets exceed \$500,000,000, as reflected in its most recent Call Report. The rules require credit unions taking certain risks to hold capital commensurate with those risks. The RBC rule revises part 702 of NCUA’s current regulations to establish a RBC ratio measure that is the percentage of a credit union’s capital divided by the credit union’s defined risk weighted asset base. This RBC rule more closely aligns NCUA’s risk weights with those assigned by other Banking agencies. Accordingly, the RBC rule adopts a 10 percent RBC ratio level for “well capitalized” credit unions, and an 8 percent RBC ratio level for “adequately capitalized” credit unions.

The CCULR rule simplifies the RBC rule requirements for complex credit unions that meet certain eligibility criteria by allowing them to choose between implementing the RBC rule or the CCULR. Credit unions that select CCULR instead of the RBC rule would have a minimum 9 percent leverage ratio requirement in 2022 and that requirement would increase to a minimum of 10 percent in 2024. A qualifying complex credit union opting into the CCULR framework calculates its CCULR in the same manner as its net worth ratio under NCUA’s PCA regulations, part 702. Management has selected CCULR for calculating its RBC as of December 31, 2022.

As of December 31, 2022, the most recent call reporting period, the NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Credit Union’s category. The Credit Union’s net worth amounts and ratios are as follows:

Period	CFCU Actual		
	Net Worth Amount	Net Worth to Total Assets Ratio	CFCU Category
2022	\$ 67,985,275	10.39%	Well Capitalized
2021	\$ 63,893,583	10.89%	Well Capitalized

Previously, quantitative measures established by regulation to ensure capital adequacy required the Credit Union to maintain minimum amounts and ratios of net worth (as defined in NCUA Regulations) to total assets (as defined in NCUA Regulations). Credit unions were also required to calculate a Risk-

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2022 and 2021

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**18. REGULATORY CAPITAL (CONTINUED)**

Based Net Worth Requirement (RBNWR) which established whether or not the Credit Union will be considered “complex” under the previous regulatory framework. The Credit Union’s RBNWR as of December 31, 2021 was 4.83%. The minimum requirement to be considered complex under the regulatory framework was 6.00%.

**19. CURRENT ACCOUNTING DEVELOPMENTS**

**ASU No. 2016-13 Credit Losses (Topic 326-Financial Instruments) – New Accounting Standard Not Yet Adopted**

*Measurement of Credit Losses on Financial Instruments.* In June 2016, the FASB updated the Codification to introduce new guidance for the accounting for credit losses. As of January 1, 2023, the Credit Union is required to adopt ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASC 326”). ASC 326 replaces the incurred loss methodology with a methodology that is referred to as the CECL model to estimate the allowance for credit losses (the “ACL”) for the remaining estimated life of certain financial assets. The estimate of expected credit losses considers historical information, current information, and reasonable and supportable forecasts of economic conditions, including estimates of prepayments.

The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans held for investment and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (e.g. loan commitments, standby letters of credit, financial guarantees, and other similar instruments). In addition, ASC 326 makes changes to the accounting for available-for-sale debt securities.

One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities that management does not intend to sell or believes that it is more likely than not they will not be required to sell.

The Credit Union is adopting ASC 326 using the modified retrospective method. The resulting one-time adjustment to the ACL as a result of the adoption of the CECL model, will be recorded as an adjustment to decrease unappropriated earnings effective January 1, 2023. Based on current estimates and macro-economic assumptions, the Credit Union expects that the adoption of ASC 326 will result in a combined increase in the ACL for all applicable on-balance sheet and off-balance sheet exposures. Although the ASC 326 requires an ACL for other financial assets, the Credit Union does not expect a significant effect on the initial transition adjustment in connection with these allowances.

After adoption, the Credit Union will assess the ACL each quarter, and will recognize both negative and positive changes to the estimate through an adjustment to the ACL and earnings.



**19. CURRENT ACCOUNTING DEVELOPMENTS (CONTINUED)**

The Credit Union's methodology for estimating the ACL under CECL for applicable loans and debt securities includes the following key components:

- Segmentation of loans into pools that share common risk characteristics;
- An economic forecast period based on the relation of losses with key economic variables for each portfolio segment;
- Inclusion of qualitative adjustments to consider factors that have not been accounted for;
- Weighted Average Remaining Maturity ("WARM") method to measure credit impairment on most of the loan portfolios;
- Credit losses for loans that do not share similar risk characteristics are estimated on an individual basis. Individual evaluations are typically performed for nonaccrual loans and loans collateralized with cash in deposit accounts held at the Credit Union.
- The estimation methodology for credit losses on unfunded lending-related commitments is similar to the process for estimating credit losses for loans, with the addition of a probability of draw estimate that is applied to each commitment.
- The Credit Union may expect zero credit losses as permitted by ASC 326 for held-to-maturity debt securities, such as U.S. Treasuries and other securities with government guarantees.

The Credit Union is adopting ASC 326 using the prospective transition approach for available-for-sale debt securities for which OTTI had been recognized prior to January 1, 2023. As a result, the amortized cost basis remains the same before and after the effective date of ASC 326. There is currently no expected incremental material adjustment to the ACL related to available-for-sale securities in connection with the adoption of ASC 326 effective January 1, 2023.

ASU No. 2022-02, Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses) – This standard eliminates the accounting guidance for troubled debt restructurings by creditors under Subtopic 310-40, Receivables-Troubled Debt Restructurings by Creditors, requires an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For entities that have adopted ASU No. 2016- 13, this new standard is effective for financial statements issued for annual periods beginning after December 15, 2022. The Credit Union does not anticipate the adoption of this standard will have a material impact on the consolidated financial statements.

**20. SUBSEQUENT EVENTS**

The Credit Union evaluated subsequent events through March 22, 2023, the date the consolidated financial statements were available to be issued. The Credit Union is not aware of any additional subsequent events that require recognition or disclosure in the audited consolidated financial statements.

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Caribe Federal Credit Union  
**CONSOLIDATING STATEMENT OF FINANCIAL CONDITION**  
 At December 31, 2022

<b>Assets</b>	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2022</b>
Cash and cash equivalents	\$ 29,312,305	\$ 457,781	\$ -	\$ 29,770,086
Certificates of deposits	14,180,000	20,685	-	14,200,685
Investment securities	52,174,175	-	-	52,174,175
Loans to members, net	538,618,231	-	-	538,618,231
Accrued interest receivable	1,809,831	-	-	1,809,831
Accounts receivable, net	16,113	50,244	-	66,357
Prepaid expenses	314,691	33,451	-	348,142
Property and equipment, net	11,487,642	4,638	-	11,492,280
NCUSIF deposit	5,057,111	-	-	5,057,111
Art collections	107,619	-	-	107,619
Foreclosed and repossessed assets	273,371	-	-	273,371
Investment in unconsolidated subsidiary, net	465,995	-	(465,995)	-
Other assets	777,631	30,057	-	807,688
Total assets	\$ 654,594,715	\$ 596,856	\$ (465,995)	\$ 654,725,576
<b>Liabilities and Members' Equity</b>				
Members' shares accounts	\$ 556,664,893	\$ -	\$ -	\$ 556,664,893
Borrowed funds	\$ 25,059,983	\$ -	\$ -	\$ 25,059,983
Accounts payable and accrued liabilities	4,342,105	130,861	-	4,472,966
Accounts payable to auto dealers	3,268,284	-	-	3,268,284
Total liabilities	589,335,265	130,861	-	589,466,126
<b>Members' Equity</b>				
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	64,173,529	-	-	64,173,529
Accumulated deficit	-	(1,034,005)	1,034,005	-
Accumulated other comprehensive loss	(2,725,825)	-	-	(2,725,825)
Total members' equity	65,259,450	465,995	(465,995)	65,259,450
Total liabilities and members' equity	\$ 654,594,715	\$ 596,856	\$ (465,995)	\$ 654,725,576

Caribe Federal Credit Union  
**CONSOLIDATING STATEMENT OF INCOME AND EXPENSES**  
For the year ended December 31, 2022

	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2022</b>
Interest income:				
Interest and fees on loans	\$ 30,279,326	\$ -	\$ -	\$ 30,279,326
Interest on investments	381,035	-	-	381,035
Total interest income	<u>30,660,361</u>	-	-	<u>30,660,361</u>
Interest expense:				
Interest and dividends on members' shares and savings accounts	6,186,444	-	-	6,186,444
Net interest income	24,473,917	-	-	24,473,917
Provision for loan losses	<u>(8,264,960)</u>	-	-	<u>(8,264,960)</u>
Net interest income after provision for loan losses	<u>16,208,957</u>	-	-	<u>16,208,957</u>
Service fee and non-interest income	1,015,161	301,159	-	1,316,320
Non-interest expenses:				
Compensation and benefits	7,169,275	-	-	7,169,275
Occupancy and related	2,909,552	37,450	-	2,947,002
Other	3,109,567	207,741	-	3,317,308
Total non-interest expenses	<u>13,188,394</u>	<u>245,191</u>	-	<u>13,433,585</u>
Income before participation in losses of unconsolidated subsidiary and regulatory charges	4,035,724	55,968	-	4,091,692
Participation in profit of unconsolidated subsidiary	55,967	-	(55,967)	-
<b>Net income</b>	<u>\$ 4,091,691</u>	<u>\$ 55,968</u>	<u>\$ (55,967)</u>	<u>\$ 4,091,692</u>

Caribe Federal Credit Union  
**CONSOLIDATING SCHEDULE OF NON-INTEREST EXPENSES**  
 For the year ended December 31, 2022

	<u>CFCU</u>	<u>BCA</u>	<u>Eliminations</u>	<u>2022</u>
	\$	\$	\$	\$
<b>Compensation and benefits</b>	7,169,275	-	-	7,169,275
<b>Occupancy and related:</b>				
Depreciation and amortization	883,330	1,959	-	885,289
Occupancy and utilities	459,228	7,636	-	466,864
Communications	465,282		-	465,282
Insurance	387,918	4,898	-	392,816
Rent	13,732	22,598	-	36,330
Repairs and maintenance	505,373	359	-	505,732
Security	194,689	-	-	194,689
	<u>2,909,552</u>	<u>37,450</u>	<u>-</u>	<u>2,947,002</u>
<b>Other operating expenses:</b>				
Professional services and contracted services	789,214	115,719	-	904,933
Education and promotional	631,686		-	631,686
Loan servicing and collection	510,517		-	510,517
Annual meeting	209,391		-	209,391
Monthly statements	179,014		-	179,014
Bank service charges	107,990	4,223	-	112,213
Federal operating	91,301		-	91,301
Office supplies	85,448	1,842	-	87,290
Commission and fees	-	43,428	-	43,428
Travel and conferences	161,407		-	161,407
Employees activities	14,549		-	14,549
(Gain) on disposition of assets	(104,688)		-	(104,688)
Loss on sale investments securities	173,520		-	173,520
Dues and subscriptions	34,095		-	34,095
Other miscellaneous	226,123	42,529	-	268,652
Total other operating expenses	<u>3,109,567</u>	<u>207,741</u>	<u>-</u>	<u>3,317,308</u>
Total non-interest expenses	<u>\$ 13,188,394</u>	<u>\$ 245,191</u>	<u>\$ -</u>	<u>\$ 13,433,585</u>



# 2022 ANNUAL **REPORT**



**CARIBE FEDERAL CREDIT UNION**

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