



# ANNUAL REPORT 2024



**Caribe Federal  
Credit Union**

Servicio con calor humano

# 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 *Benito I. Rodríguez*
  - 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 *Porfirio Rios*
  - O. Old Business
  - P. New Business
  - Q. Adjournment
- 3. Social Agenda** 12:00 noon - 4:30 pm

# WELCOME

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

**HELD THIS 8th DAY OF JUNE 2025  
AT THE WYNDHAM GRAND RÍO MAR HOTEL  
RÍO GRANDE, PUERTO RICO**

It is a pleasure to welcome you to our 73rd 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 74th Anniversary.

Board of Directors  
Caribe Federal Credit Union

# SERVICES

## 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.



## BOARD OF DIRECTORS

Benito I. Rodríguez	Chairman	Attorney at Law/ Notary Public
Porfirio Ríos	1st Vice-Chairman	US Trustee, DOJ, Ret.
Luis Rivera	2nd Vice-Chairman	Engineer
Ramón A. Negrón	Treasurer	Ex-BOD ICPRFCU
Rafael Martínez	Secretary	ATF, Ret. -Attorney at Law/Notary Public
Celia Ruíz	Asst. Secretary	USDE-IOG, Ret.
Juan M. Masini	Past Chairman	Attorney at Law/ Notary Public
Iván O. Puig	Member at Large	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

### Supervisory Committee

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

### 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 SEVENTY-SECOND ANNUAL MEETING JUNE 30, 2024

The 72nd 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 30, 2024.

### QUORUM DETERMINATION AND CALL TO ORDER

The Quorum was certified by Secretary of the BOD Rafael A. Martínez with 100 members present. Chairman Benito I. Rodríguez-Massó called the meeting to order at 9:00 AM. He welcomed everyone present at the annual meeting.

Chairman of the Board, Benito I. Rodríguez-Massó, welcomed everyone and expressed his appreciation to all the members present at the annual meeting. He wished everyone a pleasant experience at the 72nd annual meeting and the celebration of CFCU's 73rd Anniversary. The Chairman initiated the meeting presenting by name each of the members of the Board of Directors, the Chairman of the Supervisory Committee, the CEO, the Parliamentary consultant, and the special guests.

The Chairman called member Eric Cordero to deliver the invocation of the 72nd Annual Meeting and CFCU's 73rd anniversary.

The Anthems of the Commonwealth of Puerto Rico, the United States of America and the Credit Union movement were played.

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

### ADMINISTRATIVE ANNOUNCEMENTS

Activities Committee Chairperson, Víctor L. Rosario presented the administrative announcements pertaining to 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 Rodríguez 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 June 11, 2023, Annual Meeting Minutes for consideration by the members. They were unanimously approved by the members.

## 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) 2023 situation as well as some of the accomplishments and future goals.

The Chairman expressed that the financial institutions had experienced asset increases. The local commercial banks' assets increased by 2.56%, the local credit unions' increased by 3.24%, and the five local federal credit unions' increased by 4.40%. CFCU continues to be the leading local federal credit union with \$668 million in assets in 2023. Notwithstanding, the board's goal is to reach 1 billion dollars in assets as soon as feasible, as well as grow our membership, provide more products and services not only in the island but also nationwide

Chairman Rodríguez also informed that during 2023, the 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:

- Create a healthy and vibrant credit union prepared to endure the uncertainties and challenges that the future may bring.
- Expand CFCU's healthy financial condition.
- Improve technology, 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 Caribe continues its efforts to increase the loan portfolio. He then presented a summary of the main accomplishments.

During the past years, the new auto loans were our main product which helped increase the loan portfolio significantly; However, due to the increase in interest rates during 2023, CFCU had to implement strategies to improve its liquidity, consequently greater emphasis was shifted to used auto loans.

The Chairman additionally informed that out of 16,000 loan applications processed, CFCU granted \$149 million in loans while maintaining the delinquency rate at approximately 1% of the loan portfolio which is below the national average.

Chairman Rodríguez informed on strategies that were carried out during 2023:

1. Several departments continue to work remotely, which has been proven to be effective and has helped maintain lower operational costs.
2. CFCU has implemented the "Aida" chatbot artificial intelligence to provide help when using our website.

3. CFCU continues to service over 53,000 members of which 5,000 were new members. Over 15,000 members use CFCU's mobile app.
4. Over 183,000 calls were answered by CFCU's Virtual Department employees, which represents 97% of calls answered.
5. During 2023 CFCU had a 99% satisfaction survey result.
6. Over 1 million electronic transactions were performed during 2023.
7. Electronic signatures for the loan disbursements.
8. Coop 24 ATM participating network available to members.
9. Shared Branching available to members through PR and the United States.
10. CFCU Branch improvements.
11. CFCU had \$163,000 in savings thanks to solar systems in the Guaynabo branch.
12. During 2023 all CFCU policies and procedures were revised to comply with regulations and improve service to members.
13. CFCU continues to fortify its technology.
14. The Marketing department continues to develop campaigns to help members take advantage of the best offers.
15. The Compliance Department continues to monitor members' transactions and follows the local and federal laws.

The Chairman additionally mentioned the following plans:

1. Improve accessibility in the digital platform and in-person services to its members.
2. Continue to fortify CFCU.
3. Implement new products and services for our members.
4. Continue to provide employees with training on digital systems.
5. Improve financial relationship with our members.
6. Improve technology.
7. Develop our new 2023-2027 Strategic Plan.

Regarding CFCU's marketing efforts, he informed that promotions and educational articles are frequently sent to members to keep them updated on CFCU's products and services. He also informed about the seasonal campaigns and activities held in CFCU branches.

The Chairman also informed on the tasks carried out by the Compliance Department who's responsible for the compliance of NCUA's rules and regulations. Transactions are constantly being monitored as well as OFAC. Mandatory training sessions are offered to CFCU employees and members of the Board.

He indicated that the money in the abandoned accounts is sent to the PR Commissioner of Financial Institutions as required by law and regulations. Information on possible fraud-related transactions is sent to the PR Financial Task Force and other pertinent federal agencies.

The Chairman also stated that CFCU's affiliate Business Alliance Insurance Agency (BAIA) offers a variety of insurance products and services for the benefit of Caribe's members. More information will be presented by BAIA's Chairperson Emilio M. Colón.

Chairman Rodríguez informed that 2023 was another excellent year with steady growth during the past 72 years. He expressed his appreciation to the members, the BOD, the employees, the consultant firm of Intelligence Forecasting Inc., and legal firm Cancio, Nadal & Rivera. He also expressed his special appreciation to the CEO Jorge M. Vadell, his staff, for their outstanding work during 2023-2024. He also, gave a special thank you to the BOD assistants, Mrs. Minerva Pérez and Mrs. Melissa Medina.

He concluded his report by expressed his appreciation for all the support received by the members of the BOD and staff reiterating his respect and loyalty as Chairman of the BOD and feels honored to continue to contribute to Caribe's success.

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 2023 financial statements by comparing them to the 2022 financial statements which are in compliance with NCUA regulations. He said that before starting the report he wanted to talk about inflation and the consumer and how it is impacting our daily lives. The Federal Reserve considers the consumer price index (CPI) on the products and services as a measure in controlling inflation. In May 2024, the CPI was down to 3.2% when compared to the 4.9% in 2023.

The Treasurer stated that inflation was caused by the influx of money by the government to the economy after the pandemic. Another reason for inflation was federal debt with is approximately \$35 Trillion dollars. In July 2023, Puerto Rico increase the minimum salary by about \$1.00 per hour and another salary increase of \$1.00 per hour was also approved in July 2024. The prime rate is currently 8.50% and it is projected to decrease during the end of this year.

CFCU has maintained a positive financial trend even in spite on the decrease in loans during 2023. The financial statements were consolidated with CFCU's subsidiary Business Consortium Alliance (BCA) and its affiliate Business Alliance Insurance Agency (BAIA). The Audited Financial statements were prepared by Llavona-Casa, Caribe's external CPA firm.

He indicated that the financial statements were available at CFCU's website since May 10, 2024, which were audited by the CPA Accounting firm of Llavona Casas.

## DELINQUENCY & CHARGE OFF

Treasurer Negrón mentioned that CFCU's delinquency had increased to 1.00% in 2023 mainly due to inflation, bankruptcy and the increase in interest rates. CFCU has had a decrease in loans of about \$16.7 million and the allowance for loan losses increased to \$13.6 million. Due to the market in real estate and autos, CFCU did not increase these types of loans. Negrón reminded the members that CFCU's deposits are insured up to \$250K per member account by NCUA.

The Treasurer provided the following financial breakdown:

## TOTAL ASSETS

As of December 31, 2023, CFCU closed with \$668 million in assets, an increase of \$13 million when compared to 2022.

## ASSET COMPOSITION

The total assets consist of Investments, Cash and Cash Equivalents of \$138 million. CFCU had a total of \$508 million in net loans, which shows a decrease of \$17 million when compared to the previous year. In 2023, CFCU had an additional \$22 million in other assets.

## SHARES & CAPITAL

Members' shares totaled \$587 million dollars, reflecting an increase of \$30 million in deposits made by members. The equity reflects a balance of \$61.1 million which is a decrease of \$4 million dollars in capital.

## INTEREST INCOME

The interest income reflected a total of \$40.5 million. This means that there was an increase of \$9.8 million compared to last year.

## OPERATIONAL COSTS

The total operational costs were \$14.6 million, an increase of \$1.2 million when compared to last year due to salary adjustments, communication improvements, professional services, and a significant increase in the provision for loan losses.

## INCOME DISTRIBUTION

The income distribution breakdown was as follows: \$4.4 million on regular shares dividend, \$5 million on share certificates dividend for a total of \$9.3 million on dividend payment. The dividend payment increased in 2023, mainly due to the increase on CD dividend payments. The net income for 2023 was \$8,571,145 which includes 3 million granted by a Federal Community Development Financial Institution Grant.

## 2024 FORECAST

Treasurer Negrón informed on a list of forecasted projections for year 2024:

1. The effects of inflation will continue to impact the economy, the prime rate is expected to go down by a 0.25% basis point to a 0.50%. and the amount of income on interest on loans is also expected to be lower in year 2024.
2. No significant increase in operational costs is expected.
3. A projection of a similar income on interest is expected.
4. No significant increase in the number of loans originated is expected for this year to maintain healthy liquidity.
5. Competitive dividends are expected to be paid this year.
6. CFCU's goal is to exceed the amount of \$700 million in total assets with two new CFCU branches.

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, greeted and welcomed the membership. He introduced each of the members of the Credit Committee and the Loan Division as well as recognized their outstanding performance throughout the year. Thereafter, he presented the statistics on the loans approved and rejected during 2023. He further indicated; However, that 2023 was a year of great challenges CFCU's performance was outstanding.

Masini-Soler stated that a total of 16,574 loan applications had been considered during the year of which 6,388 were favorably approved, representing a 39% approval rate. A total of 3,218 loan applications were withdrawn representing 19% and 6,968 were rejected, representing 42%.

The breakdown of the loan originations for 2023 was as follows: Secured loans \$11 million, partially secured loans \$1.8 million, unsecured loans \$57 million, auto loans \$71 million, motorcycle and boat loans \$36 million, commercial loans \$1.3 million and mortgage loans \$7.3 million.

As of December 31, 2023, CFCU's loan portfolio totaled \$530,338,989.

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, 2023 was 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 loan 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 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

José E. Camacho, Chairman of the Supervisory Committee, introduced each member of the committee. He informed the membership that the duties of the Supervisory Committee are to insure the following:

1. That the credit union complies with applicable federal and local regulations and the requirements and guidelines set forth by NCUA.
2. That the Credit Union's 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. That the accounting records and financial reports are accurately and timely prepared to reflect the credit union's operations results.
6. Properly administer 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 are followed.
8. Safeguard the financial objectives of the credit union.

Camacho informed that the following areas that needed attention because of the internal audits were:

- Privacy Banking Law
- ACH
- Teller Cash Count Audits
- OFAC
- ALM
- Electronic Transfers
- Independent Revision of IT, HR, Accounting and Operations
- 2023 Audited Financial Statements

He also presented the auditors that were in charge of carrying out the audits as follows: Driven Advisors, PSC, LLavona Casas, CPA Firm, GF Compliance & Regulatory Consulting LLC, Focus Risk Management Specialists, LLC, Legal & Compliance Solutions Inc. and Plante & Moran, PLLC.

Camacho also informed the membership that the member's claim in the CRM system and the complaints filed with NCUA Consumer Assistant. 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. He initiated his presentation expressing that BAIA was a great source to obtain insurance products and financial planning services. 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 by encouraging members to visit BAIA's kiosk to obtain more information on all the products available to members.

#### NOMINATIONS COMMITTEE REPORT

The Chairman of the Nominations Committee, Juan O. Rodríguez introduced the members of the nomination committee. He informed on the election process and introduced the three (3) BOD candidates whose term of office expired and expressed their availability to be re-elected to the Board of Directors as follows:

1. Mr. Benito I. Rodríguez-Massó
2. Mr. Iván O. Puig
3. Mr. Juan M. Masini-Soler

## DECLARATION OF THE CANDIDATES TO THE BOARD

He indicated that since no additional nominations were received by the Nomination's Committee or by petition, the (3) candidates previously mentioned are duly confirmed to be re-elected of the Board of Directors for a term of 3 years.

## COMMENTS TO THE REPORTS

Chairman Rodríguez opened the floor for any comments to the reports presented.

Member José Ferrer asked about 2022 versus 2023 interest income data which shows an increase of \$7 million for the year 2023. He also asked about the increase of \$4 million for the year 2023 on the provision for loan losses. The Treasurer explained that federal regulation has established CECL which requires the financial institution to reserve a larger amount of money for loan losses which is why the reserve amount for 2023 is higher than the amount in 2022. Regarding the question of the interest income increase for 2023, the treasurer indicated that it was due to the increase in the interest rates which provides more income.

Member Héctor Sánchez congratulated the members of the BOD and management because CFCU's assets had increased significantly for year 2023.

Member José Ferrer suggested that CFCU should provide training to the members by Zoom on parliamentary procedures.

## OLD BUSINESS

Chairman Rodríguez 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 at the annual meeting:

Member Rafael Del Río expressed his dissatisfaction on CFCU's automatic telephone script to direct member's calls. He commented that it takes too long to be transferred with a live person. He also commented on the excellent service he received from CFCU when his son passed away. Chairman Rodríguez expressed his condolences on the loss of his son.

Member Ana Maria Hernández mentioned that she has visited CFCU to request for the ATM card with chip technology. CEO Jorge M. Vadell informed her that the MasterCard has the chip technology which can be used in the meantime as CFCU continues to study the option of having the ATM card with chip.

Member Alexis E. Agostini expressed his gratitude for all the condolences received after the passing of his beloved wife.

Member José Pérez asked why the annual meeting was always held at the Wyndham Rio Mar hotel. Mr. Víctor L. Rosario expressed that there was a signed contract until year 2025 and that

there were not many venues with the capacity to accommodate the number of people in the social activity. Nonetheless, this year other venues will be considered for future contracts 2026-2028.

Member Víctor L. Rosario presented a motion to conclude the annual meeting. The motion was approved by the members.

Chairman Rodríguez 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,  
INDEPENDENT AUDITORS' REPORT AND  
SUPPLEMENTARY INFORMATION**

For the years ended  
December 31, 2024 and 2023

## INDEPENDENT AUDITORS' REPORT

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

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS:

#### 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, 2024 and 2023, 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, 2024 and 2023, 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.

#### CHANGE IN ACCOUNTING PRINCIPLE

As discussed in Note 2 to the financial statements, the Credit Union changed the way it accounts for its allowance for credit losses for the year 2023.

#### 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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.

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.

### EMPHASIS OF A MATTER

Allowance for Credit Losses on Loans Held in Portfolio (receivable): Quantitative Models and Qualitative Adjustments

As described in Note 2 of the financial statements, the Credit Union follows the Current Expected Credit Losses (CECL) model to establish and assess the Allowance for Credit Losses (ACL) to cover expected losses in the loan portfolio. As of December 31, 2024, the allowance for credit losses represented \$27,256,500 out of a total loan portfolio of \$551,891,868.

This CECL model establishes a prospective methodology reflecting expected credit losses over the life of financial assets. The quantitative model framework includes competitive risk scenarios to generate defaults and prepayments over the life of the assets, along with other loan-level modeling techniques to estimate loss severity. As part of this methodology, management evaluates various macroeconomic scenarios and may apply probability weighting to the outcome of selected loss scenarios. The ACL also includes a qualitative framework addressing expected but unobservable losses within the quantitative model framework. To identify potential losses not captured through the models, management assessed model limitations as well as the different risks covered by the variables used in each quantitative model.



## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### 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 45-50 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 26, 2025



DPSC226-14  
Caribe Federal Credit Union

LLAVONA - CASAS, CPA PSC  
License Number 226  
Expires on December 1, 2027

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

December 31, 2024 and 2023

<b>Assets</b>	<b>2024</b>	<b>2023</b>
Cash, cash equivalents and restricted cash	\$ 35,403,358	\$ 31,067,237
Certificates of deposits (maturity greater than three months)	91,155,493	17,118,134
Investments in securities:		
Available for sale	6,956,185	31,875,711
Held to maturity	44,834,544	58,713,615
Total investments in securities	<u>51,790,729</u>	<u>90,589,326</u>
Loans receivable in portfolio:	551,243,171	529,792,579
Allowance for credit losses	(27,256,500)	(21,574,348)
Loans receivable in portfolio, net	<u>523,986,671</u>	<u>508,218,231</u>
Accrued interest receivable	3,180,623	2,039,106
Accounts receivable, net	95,931	837,226
Prepaid expenses	367,433	389,664
Property and equipment, net	11,787,005	11,343,122
NCUSIF deposit	5,833,715	5,405,540
Art collections	107,619	107,619
Foreclosed and repossessed assets	1,257,193	349,794
Other assets	1,051,561	757,601
Total assets	<u>\$ 726,017,331</u>	<u>\$ 668,222,600</u>

**Liabilities and Members' Equity**

Members' shares accounts	\$ 647,467,178	\$ 586,719,336
Borrowed funds	-	12,530,822
Accounts payable and accrued liabilities	5,204,172	5,226,151
Accounts payable to auto dealers	4,504,675	2,636,086
Total liabilities	<u>657,176,025</u>	<u>607,112,395</u>

**Members' Equity**

Unappropriated earnings	68,885,121	61,934,494
Accumulated other comprehensive (loss)	(43,815)	(824,289)
Total members' equity	<u>68,841,306</u>	<u>61,110,205</u>
Total liabilities and members' equity	<u>\$ 726,017,331</u>	<u>\$ 668,222,600</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, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Interest income:		
Interest and fees on loans	\$ 41,522,781	\$ 37,889,624
Interest on investments	6,442,499	2,602,374
Total interest income	<u>47,965,280</u>	<u>40,491,998</u>
Interest expense:		
Interest and dividends on members' shares and savings accounts	<u>12,855,914</u>	<u>9,836,052</u>
Income before provision for credit losses	35,109,366	30,655,946
Provision for credit losses	<u>(16,223,796)</u>	<u>(12,309,800)</u>
Net interest income after provision for credit losses	<u>18,885,570</u>	<u>18,346,146</u>
Other income (excluding interest)	<u>3,790,428</u>	<u>4,862,253</u>
Other expenses (excluding interest)		
Compensation and benefits	8,191,279	7,717,252
Occupancy and related	2,998,693	2,761,857
Other	4,535,399	4,158,145
Total other expenses (excluding interest)	<u>15,725,371</u>	<u>14,637,254</u>
<b>Net income</b>	<u><u>\$ 6,950,627</u></u>	<u><u>\$ 8,571,145</u></u>

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

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**For the years ended December 31, 2024 and 2023

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	<u>2024</u>	<u>2023</u>
Net income	\$ 6,950,627	\$ 8,571,145
Other comprehensive income (expenses):		
Changes in net unrealized gain (loss) on investment securities available for sale during the year	<u>780,474</u>	<u>1,901,536</u>
Total comprehensive net income	<u>\$ 7,731,101</u>	<u>\$ 10,472,681</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, 2024 and 2023

	Unappropriated Earnings	Accumulated Other Comprehensive gain (loss)	Total
Balance, December 31, 2022	\$ 67,985,275	\$ (2,725,825)	\$ 65,259,450
Cumulative effect of change in accounting principle (See note 2)	(14,621,926)	-	(14,621,926)
Net income	8,571,145	-	8,571,145
Other comprehensive income	-	1,901,536	1,901,536
Balance, December 31, 2023	61,934,494	(824,289)	61,110,205
Net income	6,950,627	-	6,950,627
Other comprehensive income	-	780,474	780,474
Balance, December 31, 2024	\$ 68,885,121	\$ (43,815)	\$ 68,841,306

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended on December 31, 2024 and 2023

	<b>2024</b>	<b>2023</b>
Cash flows from operating activities:		
Net income	\$ 6,950,627	\$ 8,571,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	943,172	937,466
Bad debt expense	2,933	1,273
(Accretion)/Amortization of deferred loan origination fees, net	(102,287)	(104,218)
Loss (Gain) on sale of mortgage loans held-for-sale	34,198	11,074
(Gain) from sale of repossessed assets	58,778	71,683
Amortization of premium/discount on investment securities, net	2,654,454	828,399
Provision for possible credit losses	16,223,796	12,309,800
Proceeds from sale of mortgage loans held-for-sale	980,725	223,822
Recoveries of loans previously charged-off	3,299,587	1,678,128
Dividends credited on members' shares accounts	12,707,961	9,337,740
(Increase)/decrease in assets:		
Accrued interest receivable	(1,141,517)	(229,275)
Accounts receivable, net	741,295	(769,596)
Prepaid expenses	22,231	(41,522)
Other assets	(318,226)	50,087
(Decrease)/increase in liabilities:		
Accounts payable and accrued liabilities	(21,979)	753,185
Accounts payable to auto dealers	1,868,589	(632,198)
Total adjustments	<u>37,953,710</u>	<u>24,425,848</u>
Net cash provided by operating activities	<u>44,904,337</u>	<u>32,996,993</u>
Cash flows from investing activities:		
Net (increase) in certificates of deposit	(74,037,359)	(2,917,449)
Acquisition of investment securities	(197,897,545)	(39,243,550)
Proceeds from maturities of investment securities	234,822,162	-
Net (increases) decreases in loans to members	(36,204,459)	1,540,160
Net acquisitions of property and equipment	(1,387,055)	1,158,307
Proceeds from sale of repossessed assets	(944,844)	(76,423)
Deposit in NCUSIF	(428,175)	(348,429)
Net cash used in investing activities	<u>(76,077,275)</u>	<u>(39,887,384)</u>
Cash flows from financing activities:		
Net increase in shares accounts	48,039,881	20,716,703
Proceeds from line of credit	(12,530,822)	(12,529,161)
Net cash provided by financing activities	<u>35,509,059</u>	<u>8,187,542</u>
Net increase/(decrease) in cash and cash equivalents	4,336,121	1,297,151
Cash and cash equivalents at beginning of year	<u>31,067,237</u>	<u>29,770,086</u>
Cash and cash equivalents at end of year	<u>\$ 35,403,358</u>	<u>\$ 31,067,237</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

For the years ended on December 31, 2024 and 2023

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**Supplemental Disclosures of Cash Flow Information**

- Interest and dividend paid for the years ended December 31, 2024 and 2023 was \$12,794,549 and \$9,645,213, respectively.
- During the year ended December 31, 2023, changes in accounting principle for cumulative first day adjustment of CECL were recognized for \$14,621,926.
- The Credit Union charged-off approximately \$14,724,667 during the year ended December 31, 2024.
- The Credit union acquired the assets and assumed the liabilities of another Credit Union During the year ended December 31, 2024. Total net assets acquired amounted to \$1,428,010 (Seen note 3).
- During the years ended December 31, 2024 and 2023, unrealized gain (loss) on securities available-for-sale were recognized for \$780,474 and \$1,901,536, 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 (loss).
- During the year ended December 31, 2024 and 2023, there were \$1,106,370 and \$1,096,822, respectively, of loans transferred (net) to automobiles and real estate owned.

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

## 1. ORGANIZATION

Caribe Federal Credit Union (the Credit Union or Parent Company) 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*, members of San Juan Community Library, 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. 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.

- Business Alliance Insurance Agency (BAIA) - It is a subsidiary of BCA. Incorporated during year 2008 and began operations in 2009. BAIA 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.

## 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 BCA (which was consolidated with BAIA). All significant intercompany balances and transactions between the Credit Union and the subsidiary BCA have been eliminated in the preparation of these consolidated financial statements.

### Use of Estimates

The preparation of the consolidated financial statements in conformity with US GAAP 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 2023 financial statements were reclassified to conform to the 2024 presentation.

### **Tax Exemption**

The Credit Union, their subsidiaries or affiliates shall be exempt from all kinds of income, property, patent, or any other tax imposed or imposed later by the Commonwealth of Puerto Rico or any political subdivision thereof. Several previous laws eliminated the exemption from excise taxes and from the sales and use tax (IVU) on the purchases of goods and services by credit unions.

All members' shares and securities issued by credit unions and by any of their subsidiaries or affiliates are exempt, including the total value and the dividends or interests paid in accordance with them, from any types of contributions from revenues, property, excise taxes, municipal taxes or other taxes imposed or then later could be imposed by the Commonwealth of Puerto Rico or any of its political subdivisions.

### **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.

### **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 (3) months or less to be cash equivalents.

### **Restricted Cash**

The Credit Union adopted the ASU 2016-18 Accounting Standard, to identify its restricted cash in the statement of financial condition and in the statement of cash flows. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Investment in Marketable Securities**

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 invested in federally sponsored and guaranteed financial instruments. Marketable securities mainly consist of agency securities and obligations issued by the United States Government, obligations of United States corporations, and securities collateralized by mortgages on residential, commercial, and other assets in the United States. Investment securities are classified into two categories and accounted for as follows:

*Classified as held-to-maturity*

Debt securities that the Credit Union intends and has the ability to hold until maturity is classified as held-to-maturity debt securities and are recorded at amortized cost. An allowance for credit losses (ACL) is established for expected credit losses over the remaining term of the held-to-maturity debt securities.

The Credit Union has established a methodology for estimating credit losses that considers qualitative factors, including internal credit ratings and the underlying payment source to determine the amount of expected credit losses. Held-to-maturity debt securities are adjusted through the ACL when a portion or all the amount is considered uncollectible, based on the information considered to develop expected credit losses over the asset's life.

There may be certain financial assets for which the expectation of zero credit loss after evaluating historical loss information, making necessary adjustments for current conditions and reasonable and sustainable forecasts, and considering any collateral.

Factors to consider when evaluating whether expectations of zero credit loss are appropriate may include, among others:

- A financial asset that is fully collateralized by cash or cash equivalents;
- Principal and interest payments guaranteed by the government of the United States of America.

The Credit Union cannot sell or transfer held-to-maturity securities without questioning its intention to hold the debt securities until maturity unless a non-recurring or unusual event has occurred that could not have been reasonably anticipated.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***Classified as available-for-sale*

Debt securities classified as available-for-sale are recorded at fair value. Decreases in fair value below amortized cost of securities not related to estimated credit losses are recorded through comprehensive income. If the Credit Union intends to sell or believes it is more likely than not to be required to sell the debt security, it is written down to its fair value through operations.

The Credit Union's available-for-sale securities portfolio is primarily composed of United States Treasury bonds and obligations of the United States Government. These securities have an explicit or implicit guarantee from the government of the United States, have high ratings from major rating agencies, and have a long history without credit losses. Therefore, the Credit Union applies a zero-credit loss assumption, and no ACL has been established for these securities.

The Credit Union monitors the composition of its securities portfolio and credit performance to determine if any provision is considered necessary. Available-for-sale debt securities are written off when a portion or all the amount is considered uncollectible, based on the information considered to develop expected credit losses over the asset's life. The specific identification method is used to determine realized gains and losses on available-for-sale debt securities, which are included in net gain or loss on the sale of debt securities in the income statement.

**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.

At December 31, 2024 and 2023, there was no outstanding balance of the mortgage loans held for sale. During the year ended December 2024 and 2023, proceeds from loans held for sale were \$980,725 and \$223,822, respectively, and a net gain of \$34,198 and \$11,074, respectively, were recognized during the years then ended, which are included within interest and fees on loans.

**Deferred 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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Loans to Members**

The Credit Union extends credit to its members through personal loans, auto loans, mortgages, credit cards and lines of credit. During 2024 and 2023, the Credit Union originated loans with an aggregated dollar value of approximately \$183,076,804 and \$148,941,730, respectively. Loans are stated at the amount of unpaid principal, reduced by an allowance for credit losses and net origination fees. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

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 \$2,906,678 and \$3,140,093, on December 31, 2024, and 2023, respectively. If interest on those had been accrued, such income would have approximately \$164,284 and \$173,387, at December 31, 2024 and 2023, respectively.

**Accounting Standards Update (ASU) from FASB - Financial Instruments: Credit Losses (Topic 326)**

The Expected Credit Losses (CECL) model is applied to financial assets measured at amortized cost that are subject to credit losses and certain exposures outside of the balance sheet. CECL establishes a prospective methodology that reflects expected credit losses over the life of financial assets, beginning when such assets are acquired or originated. Under the revised methodology, credit losses are measured based on past events, current conditions, and reasonable and supportable forecasts that affect the recoverability of financial assets. CECL also revises the approach for recognizing credit losses on securities available for sale by replacing the direct write-off approach with the allowance approach and limiting the credit reserve to the amount by which the market value of the security is below amortized cost.

As a result of the adoption, the Credit Union recorded an increase in its allowance for credit losses related to its loan portfolio. The adoption of CECL was recognized under the Weighted Average Remaining Maturity (WARM) and Vintage approach. Therefore, adjustments to record the increase in the reserve for credit losses were recorded as a decrease in the surplus for the implementation year as a first-day adjustment. The total adjustment, as a result of the cumulative effect in accounting change, on capital or undivided earnings related to the adoption of CECL was \$14,621,926 as of December 31, 2023.

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

**Allowance for Credit Losses**

The Credit Union establishes the allowance for credit losses (ACL) for its loan portfolio based on its estimate of credit losses over the remaining contractual term of the loans, adjusted for expected prepayments, in accordance with ASC 326 "Financial Instruments - Credit Losses." An ACL is recognized for all loans, including originated and acquired loans, from inception, with a corresponding provision for credit losses charge. Losses on loans are charged by reducing the ACL, and recoveries are credited as increases.

The Credit Union follows a methodology to estimate the ACL that includes a reasonable and justifiable forecast period to estimate credit losses, considering both quantitative and qualitative factors as well as the economic outlook. As part of this methodology, management evaluates various macroeconomic scenarios provided by third parties. As of December 31, 2024, management applied probability weighting to the outcomes of selected scenarios. This assessment includes comparison procedures as well as careful analysis of the underlying assumptions used to construct the scenarios. The Credit Union considers additional macroeconomic scenarios as part of its qualitative adjustment framework.

The macroeconomic variables chosen to estimate credit losses were selected by combining quantitative procedures with expert judgment. These variables were determined as the best forecasts of expected credit losses within the Credit Union's loan portfolios and include indicators such as unemployment rate, various measures of employment levels, housing prices, gross domestic product, and measures of disposable income, among others. The determined loss framework includes a reasonable and justifiable period, with historical macroeconomic variables at the model input level.

The Credit Union developed quantitative models at the loan level segmented by loan type. This segmentation was determined by evaluating their risk characteristics, including repayment sources, terms, collateral type, among others.

To generate expected credit losses, the output of these models is combined with information on historical losses based on weighted averages and estimated life of the developed segments.

The Credit Union has designated collateral-dependent loans when foreclosure is probable or when foreclosure is not probable but practical history is used. Practical history is used when payment is expected to be substantially provided through the sale or foreclosure of collateral. The ACL for collateral-dependent loans is measured based on the fair value of the collateral fewer selling costs. The fair value of the collateral is based on appraisals, which may be adjusted due to their age, and the type, location, and condition of the property or area or general market conditions to reflect the expected change in value between the effective date of the appraisal and the measurement date.

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

### Modified Loans

Concurrent with the adoption of the Current Expected Credit Losses (CECL) methodology, the Credit Union adopted ASC Topic 326, Financial Instruments - Credit Losses (hereinafter ASC Topic 326) on January 1, 2023. This regulation eliminates the accounting and disclosure guidance for distressed debt restructurings (TDRs) and strengthens the disclosure requirements for modifications when a borrower faces financial difficulties, also called Financial Hardship Modifications (FDMs).

All FDMs must be evaluated to determine whether the modification results in a new loan or a continuation of the existing loan. A new loan will be considered to exist if the modification results in a change of 10% or more in cash flow or if the modification is significant. There is one modified loan in delinquency as of December 31, 2024 and none in 2023.

### Loan Portfolio Quality Indicators for the Commercial Loans

In addition to reviewing the commercial portfolio concentration risk, the Credit Union implemented a process of evaluation of the quality of commercial credit. 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. For commercial loans, management carried out an assessment of individual risk considering the probability of recovery and the quality of the collateral. The Credit Union used the following classifications for assessing the risk within the portfolio:

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

**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.

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

### Loan Portfolio Quality Indicators for Consumer Loans

The Credit Union measures the various credit risks of its portfolio by loan types. The delinquency, and credit score quality information per member and customer are quality indicators that the Credit Union monitors and utilizes in assessing credit quality.

#### Credit Score 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 takes information and analyze it to predict consumer behavior, such as how likely someone is to pay their bills on time or not, or whether they are able to handle a larger credit line. Generally, the FICO score range is 300 to 850, with the higher number representing less risk to the lender.

#### Credit Quality Levels, Credit Score and Loans to Members' Risk Exposure

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

**Level 1** - 720 or more, member has little or no additional risk.

**Level 2** - 719 to 670, member represents a nominal risk of loss.

**Level 3** - 669 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.

### Loan Charge-Offs

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

- A non-performing loan more than six months 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";

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

- 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;
- 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).

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

**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.

**Accounts Receivable**

Accounts receivables are stated at their net realizable value.

**Property and Equipment**

Property and equipment are recorded at their acquisition cost. Improvements that extend the useful life of the asset are capitalized. Maintenance and repairs that do not extend the useful life of such assets are expensed as incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset.

Management evaluates the carrying amount of property and equipment when events or changes in circumstances indicate that the carrying amount of such asset may not be recoverable. The recoverability of the asset that will be used and retained is determined by comparing the carrying amount to the future undiscounted cash flows expected to be generated by the asset.

If it is determined that an impairment in the value of any fixed asset has occurred, the difference between the future undiscounted cash flows and the carrying amount of the property and equipment is recognized against operations for the year.

For the years ended December 31, 2024, and 2023, the Cooperative did not recognize impairment losses on fixed assets.

**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.

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

### **Repossessed Properties**

Properties acquired through foreclosure or other types of liquidation are recorded at fair market value less estimated disposal costs. The difference between the loan's carrying amount and the fair market value less the cost of sale is recorded as an adjustment to the ACL. After the property is foreclosed, any impairment loss arising from periodic revaluations of the properties, as well as any gains or losses from the sale of these properties, are charged against operations in the period incurred. The cost of maintenance and operation of such properties is recorded as expense as incurred.

### **Right of Use Assets**

As required by the US GAAP, the Credit Union adopted the provisions of Accounting Standards Codification No.842, 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, 2024 and 2023, CFCU and the BCA subsidiary BAIA possess an operating lease agreement (note 14).

### **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.

### **Advertising and Promotional Costs**

Advertising and promotional costs are expensed as incurred.

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

### Fair Value of Financial Instruments

The Credit Union adopted ASC 820, which defines the concept of fair value, establishes a consistent framework for measuring fair value, and expanded disclosures on fair value measurements.

#### Determination of Fair Value

Pursuant to ASC 820 provisions, the Credit Union determines fair value by the price that would be received to sell the asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The Credit Union seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurement, in accordance with the fair value hierarchy provided by ASC 820.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement falls entirely will be determined based on the lowest-level input that is significant to the entire fair value measurement.

Below is a summary of the hierarchy used by the Credit Union to classify various financial instruments:

- Level 1 Input - They correspond to prices quoted (unadjusted) in active markets for active or passive identical to which the entity can access the date of measurement. The active market for the asset or liability is the market in which transactions for the asset or liability occur frequently and there is enough volume to continuously provide information about pricing.
- Level 2 Input - Correspond to prices quoted for similar assets or liabilities in active markets, quoted prices for assets or liabilities that are identical or similar in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, price quotations vary substantially, either in time or between those who make the market (for example, a principal-to-principal market); inputs other than quoted prices that are observable in the asset or liability (for example, interest rates, yield curves, speeds of pre-payment, severity of losses, credit risks, and failure to pay rates); and inputs that are mainly derived from or are corroborated by observable data through correlation or other means (confirmed by the market inputs).

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

- *Level 3 Input* - They are unobservable inputs for the asset or liability. Unobservable inputs are used only for the measurement of fair value in the way that the observable inputs are not available, what happens in situations where there is little activity in the market, if any, for the asset or liability at the date of measurement.

### Subsequent Events

The Credit Union adopted ASC 855, relating to Subsequent Events. ASC 855 establishes general standards for the accounting and disclosure of events that occurred after the date of the balance sheet but before the date of issuance of the financial statements. Specifically, it establishes the period after the date of the balance sheet during which the Credit Union's management must evaluate events or transactions that may have occurred and would need to be recorded or disclosed in the financial statements, the circumstances under which the Credit Union should recognize and disclose such events, and the type of disclosure that should be provided for these events that occurred after the date of the balance sheet.

## 3. BUSINESS COMBINATION

On November 1, 2024, the Credit Union entered into a Merger Agreement ("the Agreement") with Universal Coop Federal Credit Union (UCFCU). Under the terms of the Agreement, the Credit Union acquired all assets, rights, and property and assumed all liabilities of UCFCU.

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

<u>Fair value of Assets Acquired</u>	<u>Amount</u>
Loans to members, net	\$ 9,959,943
Cash and cash equivalents	2,680,164
Investment securities	12,173,778
Property and equipment, net	544,131
Accrued interest receivable	37,701
Other assets	291,747
	<u>25,687,464</u>
<u>Fair value of Liabilities Acquired</u>	
Members' shares and savings accounts	(24,150,703)
Accounts payable and accrued liabilities	<u>(108,751)</u>
Residual Merger Gain	<u>\$ 1,428,010</u>

**4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH**

As of December 31, 2024, and 2023, the balance of cash, cash equivalents and restricted cash consisted of the following:

	<u>2024</u>	<u>2023</u>
Cash in banks	\$ 14,239,353	\$ 10,282,396
Treasury Bills with original maturity of less than 90 days	18,650,039	18,982,103
Change Fund	1,764,953	1,170,250
Total cash and cash equivalents	<u>\$ 34,654,345</u>	<u>\$ 30,434,749</u>
Restricted cash	749,013	632,488
Total cash, cash equivalents and restricted cash	<u>\$ 35,403,358</u>	<u>\$ 31,067,237</u>

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 \$18,485,776 and \$13,838,125 exceeded the amounts covered by federal depository insurance limits for the years ended December 31, 2024, and 2023, respectively. There was no bank balance of deposits exceeding the NCUA depository insurance limits at both December 31, 2024, and 2023, and the balance of deposits in *Banco Cooperativo* amounting to \$1,420,337 and \$1,602,797 on December 31, 2024 and 2023, respectively, were uninsured at that date.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH (CONTINUED)****Restricted Cash**

The Credit Union adopted the ASU 2016-18 Accounting Standard, to identify its restricted cash in the statement of financial condition and in the statement of cash flows. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use. As of December 31, 2024, and 2023, the Credit Union had deposited \$749,013 and \$632,488, respectively, in restricted cash for the payment of property taxes and insurance on properties that serve as collateral under mortgage loans.

**5. CERTIFICATES OF DEPOSITS**

As of December 31, 2024, and 2023, the Credit Union maintains certificates of deposits mostly in denominations of \$250,000. The schedules maturities are as follows:

	<u>2024</u>	<u>2023</u>
Due in one year or less	\$ 83,504,090	\$ 16,868,134
Due after one year through three years	7,651,403	250,000
Total certificates of deposits	<u>\$ 91,155,493</u>	<u>\$ 17,118,134</u>

**6. INVESTMENTS IN SECURITIES**

As of December 31, 2024, and 2023, the amortized cost and the estimate fair market value of investment securities available-for-sale and held-to-maturity are as follows:

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended on December 31, 2024 and 2023

## 6. INVESTMENTS IN SECURITIES (CONTINUED)

<u>2024</u>				
<u>Available for sale:</u>				
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	\$ 3,000,000	\$ -	\$ (6,059)	\$ 2,993,941
Federal Farm Credit Bank (FFCB)	2,000,000	-	(36,073)	1,963,927
Federal National Mortgage Association (FNMA)	1,000,000	-	(957)	999,043
Federal Home Loan Mortgage Corporation (FHLMC)	1,000,000	-	(726)	999,274
Total	<u>\$ 7,000,000</u>	<u>\$ -</u>	<u>\$ (43,815)</u>	<u>\$ 6,956,185</u>

<u>Held to maturity:</u>				
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	\$ 1,815,922	\$ -	\$ (35,545)	\$ 1,780,377
Federal Farm Credit Bank (FFCB)	2,584,503	-	(37,790)	2,546,713
United States Treasury Bills	39,479,731	2,485	(11,484)	39,470,732
Federal National Mortgage Association (FNMA)	379,564	-	(8,747)	370,817
Federal Home Loan Mortgage Corporation (FHLMC)	574,824	345	(4,382)	570,787
Total	<u>\$ 44,834,544</u>	<u>\$ 2,830</u>	<u>\$ (97,948)</u>	<u>\$ 44,739,426</u>

<u>2023</u>				
<u>Available for sale:</u>				
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank (FHLB)	\$ 28,200,000	\$ -	\$ (651,021)	\$ 27,548,979
Federal Farm Credit Bank (FFCB)	4,500,000	-	(173,268)	4,326,732
Total	<u>\$ 32,700,000</u>	<u>\$ -</u>	<u>\$ (824,289)</u>	<u>\$ 31,875,711</u>

<u>Held to maturity:</u>				
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
United States Treasury Bills	\$ 58,713,615	\$ -	\$ (28,022)	\$ 58,685,593

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**6. INVESTMENTS IN SECURITIES (CONTINUED)**

The following table shows the unrealized losses, estimated market value, and the length of time investments have been on the Credit Union's books in an unrealized loss position as of December 31, 2024 and 2023:

Description of Securities	As of December 31, 2024					
	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 Bank (FHLB)	\$ -	\$ -	\$ 2,993,941	\$ (6,059)	\$ 2,993,941	\$ (6,059)
Federal Farm Credit Bank (FFCB)	1,963,927	(36,073)	-	-	1,963,927	(36,073)
Federal National Mortgage Association (FNMA)	-	-	999,043	(957)	999,043	(957)
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	999,274	(726)	999,274	(726)
Total	<u>\$ 1,963,927</u>	<u>\$ (36,073)</u>	<u>\$ 4,992,258</u>	<u>\$ (7,742)</u>	<u>\$ 6,956,185</u>	<u>\$ (43,815)</u>

Description of Securities	As of December 31, 2023					
	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 Bank (FHLB)	\$ 27,548,979	\$ (651,021)	\$ -	\$ -	\$ 27,548,979	\$ (651,021)
Federal Farm Credit Bank (FFCB)	2,446,921	(53,079)	1,879,811	(120,189)	4,326,732	(173,268)
Total	<u>\$ 29,995,900</u>	<u>\$ (704,100)</u>	<u>\$ 1,879,811</u>	<u>\$ (120,189)</u>	<u>\$ 31,875,711</u>	<u>\$ (824,289)</u>

During the year ended December 31, 2024, management determined that no expected credit losses were anticipated for unrealized losses over securities. All the investments in securities principal and interest payments are guaranteed by the government of the United States of America, therefore, contractual cash flows are expected to occur. As a result of this evaluation, management determined that no credit loss provisions were required for the years ended December 31, 2024 and 2023. The available for sale debt securities portfolio reflects unrealized losses of approximately \$43,815 and \$824,289 required for the year ended December 31, 2024 and 2023, respectively, primarily driven by mortgage-backed securities, which have been impacted by a decrease in their fair value due to rising interest rates.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**6. INVESTMENTS IN SECURITIES (CONTINUED)**

The amortized cost and estimated fair value of investment securities, on December 31, 2024 and 2023, 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	2024		2023	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due in one year or less	\$ 41,479,731	\$ 41,434,659	\$ 89,413,615	\$ 88,681,493
Due after one year through five years	6,223,261	6,204,041	2,000,000	1,879,811
Due after five year through ten years	2,764,739	2,723,849	-	-
Due after ten years	1,366,813	1,333,062	-	-
Total	<u>\$ 51,834,544</u>	<u>\$ 51,695,611</u>	<u>\$ 91,413,615</u>	<u>\$ 90,561,304</u>

**7. LOANS RECEIVABLE IN PORTFOLIO**

As of December 31, 2024, and 2023, the portfolio of loans of the Credit Union by type is as follows:

	2024	2023
<b>Loans to members:</b>		
<u>Commercial:</u>		
Corporations and individuals	\$ 18,138,375	\$ 21,222,024
Total commercial	<u>18,138,375</u>	<u>21,222,024</u>
<u>Consumer:</u>		
Unsecured	195,382,286	156,304,540
Mortgage	35,434,325	28,398,259
Auto	268,555,848	293,879,076
Share secured loans	14,542,551	13,575,947
Credit cards	19,461,413	16,547,965
Lines of credit	377,070	411,178
Total consumer	<u>533,753,493</u>	<u>509,116,965</u>
Total loans	551,891,868	530,338,989
Less: Allowance credit losses	(27,256,500)	(21,574,348)
Less: Net unamortized deferred origination fees	(648,697)	(546,410)
Total loans to members, net	<u>\$ 523,986,671</u>	<u>\$ 508,218,231</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**7. LOANS RECEIVABLE IN PORTFOLIO (CONTINUED)**

The allowance for credit losses in the Credit Union's loans held in portfolio and unfunded commitments for the years ended December 31, 2024, and 2023, is presented below:

**Allowance for credit losses-loans held in portfolio:**

	<b>2024</b>		
	Commercial	Consumer	Total
Beginning balance	\$ 594,147	\$ 20,980,201	\$ 21,574,348
Provision during the year	(368,542)	16,589,786	16,221,244
Recoveries of loans previously charged-off	-	4,185,575	4,185,575
Loans charge-offs	-	(14,724,667)	(14,724,667)
Ending balance	<u>\$ 225,605</u>	<u>\$ 27,030,895</u>	<u>\$ 27,256,500</u>
Evaluation of Allowance:			
Allowance evaluated individually	\$ -	\$ -	\$ -
Allowance evaluated collectively	225,605	27,030,895	27,256,500
Total	<u>\$ 225,605</u>	<u>\$ 27,030,895</u>	<u>\$ 27,256,500</u>
Loan Ending Balance:			
Evaluated individually for impairment	\$ 2,731,597	\$ 14,542,550	\$ 17,274,147
Evaluated collectively for impairment	15,406,778	519,210,943	534,617,721
Total	<u>\$ 18,138,375</u>	<u>\$ 533,753,493</u>	<u>\$ 551,891,868</u>

**Allowance for credit losses-unfunded commitments:**

	<b>2024</b>		
	Commercial	Consumer	Total
Beginning balance	\$ 37,784	\$ 86,593	\$ 124,377
Provision during the year	(14,490)	17,042	2,552
Ending balance	<u>\$ 23,294</u>	<u>\$ 103,635</u>	<u>\$ 126,929</u>

The allowance for credit losses for unfunded commitments is presented as part of accounts payable and accrued liabilities in the balance sheet (see note 13). The provision for credit losses (pcl) presented as part of the statement of income and expenses for the year ended December 31, 2024, would be as follows:

	<b>2024</b>		
	Commercial	Consumer	Total
Provision for credit losses-loans	\$ -	\$ 16,221,244	\$ 16,221,244
Provision for credit losses-unfunded commitments	(14,490)	17,042	2,552
Total	<u>\$ (14,490)</u>	<u>\$ 16,238,286</u>	<u>\$ 16,223,796</u>

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**7. LOANS RECEIVABLE IN PORTFOLIO (CONTINUED)**

**Allowance for credit losses-loans held in portfolio:**

	<b>2023</b>		
	Commercial	Consumer	Total
Beginning balance	\$ 202,871	\$ 7,722,004	\$ 7,924,875
Change in accounting principle- Cumulative effect of first day adjustment of CECL	391,276	14,230,650	\$ 14,621,926
Provision during the year	-	12,185,423	12,185,423
Recoveries of loans previously charged-off	-	1,678,128	1,678,128
Loans charge-offs	-	(14,836,004)	(14,836,004)
Ending balance	<u>\$ 594,147</u>	<u>\$ 20,980,201</u>	<u>\$ 21,574,348</u>
Evaluation of Allowance:			
Allowance evaluated individually	\$ -	\$ -	\$ -
Allowance evaluated collectively	594,147	20,980,201	21,574,348
Total	<u>\$ 594,147</u>	<u>\$ 20,980,201</u>	<u>\$ 21,574,348</u>
Loan Ending Balance:			
Evaluated individually for impairment	\$ -	\$ -	\$ -
Evaluated collectively for impairment	21,222,024	509,116,965	530,338,989
Total	<u>\$ 21,222,024</u>	<u>\$ 509,116,965</u>	<u>\$ 530,338,989</u>

**Allowance for credit losses-unfunded commitments:**

	<b>2023</b>		
	Commercial	Consumer	Total
Beginning balance	\$ -	\$ -	\$ -
Provision during the year	124,377	-	124,377
Ending balance	<u>\$ 124,377</u>	<u>\$ -</u>	<u>\$ 124,377</u>

The allowance for credit losses for unfunded commitments is presented as part of accounts payable and accrued liabilities in the balance sheet (see note 13). The provision for credit losses (pcl) presented as part of the statement of income and expenses for the year ended December 31, 2024, would be as follows:

	<b>2023</b>		
	Commercial	Consumer	Total
Provision for credit losses-loans	\$ -	\$ 12,185,423	\$ 12,185,423
Provision for credit losses-unfunded commitments	124,377	-	124,377
Total	<u>\$ 124,377</u>	<u>\$ 12,185,423</u>	<u>\$ 12,309,800</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**7. LOANS RECEIVABLE IN PORTFOLIO (CONTINUED)**

At December 31, 2024 and 2023 and based on the most recent analysis performed, the risk category of members' commercial loans is as follows:

	December 31, 2024				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	\$ 16,758,273	\$ -	\$ 1,380,102	\$ -	\$ 18,138,375
Total commercial	<u>\$ 16,758,273</u>	<u>\$ -</u>	<u>\$ 1,380,102</u>	<u>\$ -</u>	<u>\$ 18,138,375</u>
	December 31, 2023				
	Pass	Special Mention	Substandard	Doubtful or Loss	Total
Commercial	\$ 19,969,231	\$ -	\$ 1,252,793	\$ -	\$ 21,222,024
Total commercial	<u>\$ 19,969,231</u>	<u>\$ -</u>	<u>\$ 1,252,793</u>	<u>\$ -</u>	<u>\$ 21,222,024</u>

The following table summarizes the aging of the loans' receivable portfolio in past due on December 31, 2024 and 2023:

December 31, 2024	Age Analysis of Loan to members Receivables by Category as of December 31, 2024				Over 89 days Non Accruing
	Current or 0-59 days	60-89 days	Over 89 days	Total	
Unsecured	\$ 193,923,862	\$ 1,103,905	\$ 354,519	\$ 195,382,286	\$ 793,494
Mortgage	35,367,360	8,521	58,444	35,434,325	58,444
Auto	265,766,950	2,228,348	560,550	268,555,848	832,292
Share secured loans	14,542,551	-	-	14,542,551	-
Credit cards	19,359,612	101,801	-	19,461,413	123,809
Lines of credit	372,092	4,978	-	377,070	4,978
Total consumer loans	<u>529,332,427</u>	<u>3,447,553</u>	<u>973,513</u>	<u>533,753,493</u>	<u>1,813,017</u>
Commercial	<u>16,686,274</u>	<u>358,439</u>	<u>1,093,662</u>	<u>18,138,375</u>	<u>1,093,662</u>
Total loans to members	<u>\$ 546,018,701</u>	<u>\$ 3,805,992</u>	<u>\$ 2,067,175</u>	<u>\$ 551,891,868</u>	<u>\$ 2,906,679</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**7. LOANS RECEIVABLE IN PORTFOLIO (CONTINUED)****Age Analysis of Loan to members Receivables by Category as of  
December 31, 2023**

<b>December 31, 2023</b>	Current or			Total	Over 89 days Non Accruing
	0-59 days	60-89 days	Over 89 days		
Unsecured	\$ 155,441,718	\$ 668,617	\$ 194,205	\$ 156,304,540	\$ 619,634
Mortgage	28,398,259	-	-	28,398,259	-
Auto	290,948,378	2,491,069	439,629	293,879,076	1,062,059
Share secured loans	13,401,320	117,692	56,935	13,575,947	93,204
Credit cards	16,450,587	88,955	8,423	16,547,965	112,403
Lines of credit	411,178	-	-	411,178	-
Total consumer loans	505,051,440	3,366,333	699,192	509,116,965	1,887,300
Commercial	19,969,231	-	1,252,793	21,222,024	1,252,793
Total loans to members	<u>\$ 525,020,671</u>	<u>\$ 3,366,333</u>	<u>\$ 1,951,985</u>	<u>\$ 530,338,989</u>	<u>\$ 3,140,093</u>

The following table represents the recorded investment in consumer loans based on different levels of risk of loss for the years ended December 31, 2024 and 2023:

<b>Credit Quality Levels</b>	<b>December 31, 2024</b>		<b>December 31, 2023</b>	
	Loans Balance	%	Loans Balance	%
Upper Level	\$ 391,424,442	73%	\$ 373,983,921	74%
Middle Level	67,488,493	13%	70,041,398	14%
Lower Level	73,687,999	14%	64,133,231	12%
	532,600,934	<u>100%</u>	508,158,550	<u>100%</u>
Credit score not available	<u>1,152,559</u>		<u>958,415</u>	
Total consumer loans	<u>\$ 533,753,493</u>		<u>\$ 509,116,965</u>	

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**7. LOANS RECEIVABLE IN PORTFOLIO (CONTINUED)**

Below is a summary of the type of concession granted to modified loans with balances as of December 31, 2024, and 2023:

	For the year ended					
	December 31, 2024			December 31, 2023		
	Reduction in interest rate and/or maturity date	Principal forgiveness	Total	Reduction in interest rate and/or maturity date	Principal forgiveness	Total
Consumer:						
Personal	\$ 348,855	\$ -	\$ 348,855	\$ 407,530	\$ -	\$ 407,530
Mortgage	-	-	-	-	-	-
Line of Credit	-	-	-	24,819	-	24,819
Auto	12,303	-	12,303	58,080	-	58,080
Credit Card	31,154	-	31,154	24,944	-	24,944
Total consumer loans	\$ 392,312	\$ -	\$ 392,312	\$ 515,373	\$ -	\$ 515,373
Commercial	-	-	-	-	-	-
Total	\$ 392,312	\$ -	\$ 392,312	\$ 515,373	\$ -	\$ 515,373

**Loans to Related Parties**

Certain officers, directors, and employees of the Credit Union had loans and share accounts with the Credit Union during 2024 and 2023. 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, 2024 and 2023, are as follow:

	2024	2023
Beginning balance of loans	\$ 2,768,515	\$ 2,775,276
Originations	1,051,202	809,254
Recoveries	(1,055,491)	(816,015)
Ending balance of loans	\$ 2,764,226	\$ 2,768,515
Shares	\$ 5,443,384	\$ 4,065,714

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**8. ACCRUED INTEREST RECEIVABLE**

At December 31, 2024 and 2023, the following are the components of accrued interest receivable:

	<u>2024</u>	<u>2023</u>
Accrued interests on loans	\$ 1,979,482	\$ 1,891,652
Accrued interests on investments	<u>1,201,141</u>	<u>147,454</u>
Total accrued interest receivable	<u>\$ 3,180,623</u>	<u>\$ 2,039,106</u>

**9. PROPERTY AND EQUIPMENT**

As of December 31, 2024, and 2023, the property and equipment were composed of the following:

	Useful Life (in Years)	<u>2024</u>	<u>2023</u>
Buildings	40	\$ 13,196,314	\$ 12,827,289
Furniture and fixtures	1-5	1,804,784	1,598,208
Office equipment, principally information systems	1-5	<u>5,625,790</u>	<u>4,912,948</u>
		20,626,888	19,338,445
Less accumulated depreciation and amortization		<u>(11,520,041)</u>	<u>(10,576,868)</u>
		9,106,847	8,761,577
Land		<u>2,680,158</u>	<u>2,581,545</u>
Total property and equipment		<u>\$ 11,787,005</u>	<u>\$ 11,343,122</u>

Depreciation and amortization expense charged to operations was \$943,172 and \$937,466 for the years ended December 31, 2024 and 2023, respectively.

**10. FORECLOSED AND REPOSSESSED ASSETS**

As of December 31, 2024, and 2023, the movement in foreclosure and repossessed assets are as follows:

	<u>2024</u>	<u>2023</u>
Balance, beginning of year	\$ 349,794	\$ 273,371
Repossessed assets during the year	1,911,021	1,096,822
Sale of repossessed assets	<u>(1,003,622)</u>	<u>(1,020,399)</u>
Balance, ending of year	<u>\$ 1,257,193</u>	<u>\$ 349,794</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**11. OTHER ASSETS**

As of December 31, 2024, and 2023, the other assets were composed of the following:

	<u>2024</u>	<u>2023</u>
Deposits in Banco Cooperativo	\$ 183,193	\$ 179,819
Investment in FHLB NY	57,100	51,400
Deposits for annual meeting	44,319	48,044
Others	766,949	478,338
Total other assets	<u>\$ 1,051,561</u>	<u>\$ 757,601</u>

**12. MEMBERS' SHARES ACCOUNTS**

As of December 31, 2024, and 2023, members' shares accounts are summarized as follows:

	Weighted-Average Dividend Rate at December 31,	<u>2024</u>	<u>2023</u>
Shares drafts	0.05%	\$ 29,797,908	\$ 29,612,731
Regular shares (excluding escrow shares)	1.36%	386,849,273	366,304,370
Share certificates:	3.63%		
0.00% - 2.00%		5,533,248	8,053,158
2.01% - 3.00%		8,615,560	22,711,556
3.01% - 4.99%		216,671,189	160,037,521
		<u>230,819,997</u>	<u>190,802,235</u>
Total members shares accounts		<u>\$ 647,467,178</u>	<u>\$ 586,719,336</u>

As of December 31, 2024, and 2023, 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, 2024 and 2023 follows:

<u>Type</u>	<u>2024</u>	<u>2023</u>
Uninsured member shares and deposits	\$ 58,503,398	\$ 47,110,617
Insured member shares and deposits	589,712,793	540,241,207
Insured escrow	(749,013)	(632,488)
Total share and share certificates accounts	<u>\$ 647,467,178</u>	<u>\$ 586,719,336</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

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

At December 31, 2024, scheduled maturities of share certificates for the next five years are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2025	\$ 195,271,762
2026	19,463,407
2027	8,497,036
2028	4,758,281
2029	2,829,511
	<u>\$ 230,819,997</u>

Dividends expense on members' shares accounts for the years ended December 31, 2024 and 2023 is summarized as follows:

<u>Type</u>	<u>2024</u>	<u>2023</u>
Regular shares	\$ 4,997,848	\$ 4,424,700
Share drafts	12,383	12,097
Share certificates	7,697,730	4,900,943
Total dividend expense on members' shares and savings	<u>\$ 12,707,961</u>	<u>\$ 9,337,740</u>

**13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

As of December 31, 2024, and 2023 the composition of accounts payable and accrued liabilities is as follows:

	<u>2024</u>	<u>2023</u>
Dividends payable	\$ 369,548	\$ 308,183
Accrued payroll and related	542,500	463,309
Annual members' meeting	100,000	100,000
Accounts payable - trade	52,882	98,037
Accounts payable - ATM	102,193	513,144
Escrow accounts	749,013	632,488
Allowance for credit losses - unfunded commitments	126,929	124,377
Other accruals	3,161,107	2,986,613
Total accounts payable and accrued liabilities	<u>\$ 5,204,172</u>	<u>\$ 5,226,151</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**14. LEASES WITH RIGHT OF USE**

Business Alliance Insurance Agency (BAIA) leases an office facility on a month-to-month basis to rent an agreement to an unrelated party. This operating lease commenced on June 1, 2023 to May 30, 2024 (2 years term) with monthly payments of \$1,800 and an incremental borrowing rate of 2.48%.

The right-of-use asset and the lease liability under this operating lease totaled \$0 as of December 31, 2024, and \$8,960 as of December 31, 2023; and was included in the accompanying consolidated statements of financial condition as part of the Other Assets caption.

CFCU leases two office facilities on a month-to-month basis and rent agreements to unrelated parties. One operating lease commenced on October 28, 2024 to March 31, 2035 (10 years term with monthly payments of \$2,000 starting on April 1, 2025 and an incremental borrowing rate of 3.50%). The other operating lease commenced on July 15, 2024 (1 year term with monthly payments of \$800 commenced on November 1, 2024). The right-of-use asset and lease liability under these operating leases totaled \$242,697 as of December 31, 2024.

**15. OTHER INCOME (EXCLUDING INTEREST)**

The other income, excluding interest income, for the years ended December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
ATM card fees and charges, net	\$ 452,981	\$ 385,386
Master card fees and charges, net	55,520	48,888
Other fees, charges and expenses	466,572	453,230
Sponsorships other	194,305	243,103
CDFI Grant	718,258	3,065,116
Other	40,081	283,327
Merger Purchase Gain (See note 3)	<u>1,428,010</u>	<u>-</u>
	3,355,727	4,479,050
Other income from BCA	<u>434,701</u>	<u>383,203</u>
Total other income (excluding interest)	<u>\$ 3,790,428</u>	<u>\$ 4,862,253</u>

**16. OTHER EXPENSES (EXCLUDING INTEREST)**

The other expenses, excluding interest expenses, for the years ended December 31, 2024 and 2023 is as follows:

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**16. OTHER EXPENSES (EXCLUDING INTEREST)**

	<u>2024</u>	<u>2023</u>
<b>Compensation and benefits</b>	<u>\$ 8,191,279</u>	<u>\$ 7,717,252</u>
<b>Occupancy and related:</b>		
Depreciation and amortization	943,172	937,466
Occupancy and utilities	471,765	396,729
Communications	300,959	303,077
Insurance	480,232	440,405
Rent	36,106	35,704
Repairs and maintenance	538,620	426,042
Security	227,839	222,434
	<u>2,998,693</u>	<u>2,761,857</u>
<b>Other operating expenses:</b>		
Professional services and contracted services	1,149,778	1,128,623
Education and promotional	669,766	558,620
Loan servicing and collection	610,445	430,042
Annual meeting	216,722	195,281
Monthly statements	131,696	119,931
Online Services	664,845	725,719
Bank service charges	151,639	170,356
Federal operating	125,602	101,918
Office supplies	95,972	88,209
Commission and fees	55,555	59,554
Travel and conferences	142,137	162,004
Employees activities	21,810	19,528
Loss (Gain) on disposition of assets	58,778	71,683
Dues and subscriptions	44,860	44,568
Other miscellaneous	395,794	282,109
Total other operating expenses	<u>4,535,399</u>	<u>4,158,145</u>
Total non-interest expenses	<u>\$ 15,725,371</u>	<u>\$ 14,637,254</u>

**17. 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.

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, 2024 and 2023, the Credit Union contributed \$218,544 and \$199,499, respectively, to the pension plan.

**18. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES**

**Exposure of the Cooperative and Puerto Rico's Fiscal Situation**

The credit quality of the Credit Union's loan portfolio necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico, its consumers, and businesses. The effects of the prolonged recession are reflected in the limited demand for loans, an increase in foreclosure rates, and loan moratoriums granted in Puerto Rico. While PROMESA provides a process to address Puerto Rico's fiscal crisis, the duration and complexity of Title III proceedings for the Puerto Rican government suggest a risk of further economic contraction. This could have an impact on Puerto Rico's economic activity where the Credit Union conducts its business. The accompanying financial statements do not include adjustments related to the effect of uncertainties related to Puerto Rico's economic conditions and their effects on the Credit Union.

**Interest Rate Risk**

Interest rate risk is the exposure of the economies and the current or future capital of a cooperative to adverse changes in market rates. This risk is a normal part of the risks managed by financial institutions and cooperatives. Proper management of this risk results in a significant source of profitability and value for cooperatives; However, excessive interest rate risk can strain economies, capital, liquidity, and solvency of financial institutions. During the years ended December 31, 2024 and 2023, the effect of the monetary policy of the Federal Reserve of the United States of America, regarding the pace of interest rate increases, has pressured the balance sheets of financial institutions in general, specifically on the aforementioned items. As of December 31, 2024, the Credit Union was closely measuring and monitoring this risk to anticipate and effectively control any adverse effects that may arise from 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.

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**18. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)****Loan Commitments**

At December 31, 2024 and 2023, the Credit Union had outstanding the following commitments to extended credit with its members:

<u>Lines of Credit</u>	<u>2024</u>	<u>2023</u>
Commercial	\$ 1,456,756	\$ 1,073,720
Consumer	1,146,806	1,147,922
Credit cards	48,149,307	42,169,652
	<u>\$ 50,752,869</u>	<u>\$ 44,391,294</u>

In addition, the Credit Union had pending to deliver certain payments to auto dealers subject to the presentation of required documents. As of December 31, 2024, and 2023, payments amounted to \$4,504,675 and \$2,636,086, 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 more than 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.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**18. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)****Line of Credit**

The Credit Union has a line of credit facility with two (2) financial institutions. As of December 31, 2024 and 2023, the outstanding balance of \$-0- and \$12,530,822, respectively. With certain exceptions, substantially all assets of the Credit Union serve as collateral for the line of credit facility. The unused amount was \$108,454,440 as of December 31, 2024. Interest is charged when applicable based on the advance term, usually below prime rate. Interest expense for the years ended December 31, 2024 and 2023 amounted to \$147,953 and \$498,312, respectively.

**19. FAIR VALUE MEASUREMENTS****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, 2024 and 2023 are as follows:

<u>Asset Class</u>	<u>Fair Value</u>	<u>Fair Value Measurement At Reporting Date Using:</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>December 31, 2024</b>				
Available-for-sale securities	\$ 6,956,185	\$ -	\$ 6,956,185	\$ -
Held to maturity	\$ 44,739,426	\$ 30,140,416	\$ 14,599,010	\$ -
Total	\$ 51,695,611	\$ 30,140,416	\$ 21,555,195	\$ -
<b>December 31, 2023</b>				
Available-for-sale securities	\$ 31,875,711	\$ -	\$ 31,875,711	\$ -
Held-to-maturity securities	\$ 11,423,441	\$ 7,438,681	\$ 3,984,760	\$ -
Held to maturity	\$ 58,685,593	\$ 55,637,270	\$ 3,048,323	\$ -

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**19. FAIR VALUE MEASUREMENTS (CONTINUED)****Fair Value of Financial Instruments Measured on a Non-Recurring Basis**

The level of inputs used to determine each adjustment and the carrying value of the related asset as of December 31, 2024, and 2023, are summarized below:

Asset Class	Fair Value	Fair Value Measurement At Reporting Date Using:		
		Level 1	Level 2	Level 3
<b>December 31, 2024</b>				
Assets acquired in liquidation of loans	\$ 1,257,193	\$ -	\$ -	\$ 1,257,193
<b>December 31, 2023</b>				
Assets acquired in liquidation of loans	\$ 349,794	\$ -	\$ -	\$ 349,794

**Estimated Fair Value**

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, 2024 and 2023:

	December 31, 2024		December 31, 2023	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash, cash equivalents and restricted cash	\$ 35,403,358	\$ 35,403,358	\$ 31,067,237	\$ 31,067,237
Certificates of deposits	91,155,493	91,155,493	17,118,134	17,118,134
Investments in securities	51,790,729	51,695,611	90,589,326	90,554,321
Loans receivable (net of unamortized deferred origination fees)	523,986,671	517,286,451	508,218,231	503,424,000
Accrued interest receivable	3,180,623	3,180,623	2,039,106	2,039,106
Foreclosed and repossessed assets	1,257,193	1,257,193	349,794	349,794
	<u>\$ 706,774,067</u>	<u>\$ 699,978,729</u>	<u>\$ 649,381,828</u>	<u>\$ 644,552,592</u>
Financial Liabilities				
Members' shares accounts	<u>\$ 647,467,178</u>	<u>647,467,178</u>	<u>\$ 586,719,336</u>	<u>586,719,336</u>
Off- Balance Sheet Financial:				
Commitments to extend credit	<u>\$ 50,752,869</u>	<u>\$ 50,752,869</u>	<u>\$ 44,391,294</u>	<u>\$ 44,391,294</u>

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

**19. FAIR VALUE MEASUREMENTS (CONTINUED)**

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, cash equivalents and restricted cash- The carrying amount approximates fair value due to the short-term nature of these instruments.
- Certificates of deposit- For long-term certificates of deposit, fair value has been determined discounting the principal and interest to be received at rates currently offered by other financial institutions for certificates with similar terms and characteristics.
- Investment securities - Fair values have been determined using quoted market prices for all investment securities.
- Accrued Interest receivable - The fair value of the accrued interest receivable approximates the carrying amount in the financial statements.
- Members' shares accounts:
  - (a) Regular shares and share drafts accounts - The fair value of members' regular shares and share drafts having no fixed maturity is the amount payable on demand at the reporting date.
  - (b) Share certificates - The fair value of fixed maturity members' share certificates is estimated using the rates currently offered for deposits with similar remaining maturities.
- Commitments to extend credit - The estimated fair value of the commitments to extend credit represents the Credit Union are potentially unfunded under such lines of credit.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

For the years ended on December 31, 2024 and 2023

**20. 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 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, 2024 and 2023.

As of December 31, 2024, 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	Net Worth Amount (Regulatory)	CFCU Actual	
		Net Worth to Total Assets Ratio	CFCU Category
2024	\$ 71,372,617	10.39%	Well Capitalized
2023	\$ 71,731,185	10.58%	Well Capitalized

**21. SUBSEQUENT EVENTS**

The Credit Union evaluated subsequent events through March 26, 2025, 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, 2024

	CEFCU	BCA	Eliminations	2024
<b>Assets</b>				
Cash, cash equivalents and restricted cash	\$ 35,024,215	\$ 379,143	\$ -	\$ 35,403,358
Certificates of deposits (maturity greater than three months)	90,932,675	222,818	-	91,155,493
Investments in securities	51,790,729	-	-	51,790,729
Loans receivable in portfolio, net	523,986,671	-	-	523,986,671
Accrued interest receivable	3,180,623	-	-	3,180,623
Accounts receivable, net	16,798	79,133	-	95,931
Prepaid expenses	330,910	36,523	-	367,433
Property and equipment, net	11,783,780	3,225	-	11,787,005
NCUSIF deposit	5,833,715	-	-	5,833,715
Art collections	107,619	-	-	107,619
Foreclosed and repossessed assets	1,257,193	-	-	1,257,193
Investment in unconsolidated subsidiary, net	626,224	-	(626,224)	-
Other assets	1,050,151	1,410	-	1,051,561
Total assets	<u>\$ 725,921,303</u>	<u>\$ 722,252</u>	<u>\$ (626,224)</u>	<u>\$ 726,017,331</u>
<b>Liabilities and Members' Equity</b>				
Members' shares accounts	\$ 647,467,178	\$ -	\$ -	\$ 647,467,178
Borrowed funds	-	-	-	-
Accounts payable and accrued liabilities	5,108,144	96,028	-	5,204,172
Accounts payable to auto dealers	4,504,675	-	-	4,504,675
Total liabilities	<u>657,079,997</u>	<u>96,028</u>	<u>-</u>	<u>657,176,025</u>
<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	-	-	-	-
Unappropriated earnings	68,885,121	-	-	68,885,121
Accumulated deficit	-	(873,776)	873,776	-
Accumulated other comprehensive loss	(43,815)	-	-	(43,815)
Total members' equity	<u>68,841,306</u>	<u>626,224</u>	<u>(626,224)</u>	<u>68,841,306</u>
Total liabilities and members' equity	<u>\$ 725,921,303</u>	<u>\$ 722,252</u>	<u>\$ (626,224)</u>	<u>\$ 726,017,331</u>

Caribe Federal Credit Union  
**CONSOLIDATING STATEMENT OF INCOME AND EXPENSES**  
For the year ended December 31, 2024

	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2024</b>
Interest income:				
Interest and fees on loans	\$ 41,522,781	\$ -	\$ -	\$ 41,522,781
Interest on investments	6,442,499	-	-	6,442,499
Total interest income	<u>47,965,280</u>	<u>-</u>	<u>-</u>	<u>47,965,280</u>
Interest expense:				
Interest and dividends on members' shares and savings accounts	12,855,914	-	-	12,855,914
Income before provision for credit losses	35,109,366	-	-	35,109,366
Provision for credit losses	<u>(16,223,796)</u>	<u>-</u>	<u>-</u>	<u>(16,223,796)</u>
Net interest income after provision for credit losses	<u>18,885,570</u>	<u>-</u>	<u>-</u>	<u>18,885,570</u>
Other income (excluding interest)	3,355,727	434,701	-	3,790,428
Other expenses (excluding interest):				
Compensation and benefits	8,191,279	-	-	8,191,279
Occupancy and related	2,962,298	36,395	-	2,998,693
Other	4,229,229	306,170	-	4,535,399
Total other expenses (excluding interest)	<u>15,382,806</u>	<u>342,565</u>	<u>-</u>	<u>15,725,371</u>
Income before participation in losses of unconsolidated subsidiary and regulatory charges	6,858,491	92,136	-	6,950,627
Participation in profit of unconsolidated subsidiary	<u>92,136</u>	<u>-</u>	<u>(92,136)</u>	<u>-</u>
<b>Net income</b>	<u>\$ 6,950,627</u>	<u>\$ 92,136</u>	<u>\$ (92,136)</u>	<u>\$ 6,950,627</u>

Caribe Federal Credit Union  
**CONSOLIDATING SCHEDULE OF OTHER EXPENSES (EXCLUDING INTEREST)**  
For the year ended December 31, 2024

	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2024</b>
	\$	\$	\$	\$
<b>Compensation and benefits</b>	8,191,279	-	-	8,191,279
<b>Occupancy and related:</b>				
Depreciation and amortization	941,381	1,791	-	943,172
Occupancy and utilities	465,012	6,753	-	471,765
Communications	300,959	-	-	300,959
Insurance	474,788	5,444	-	480,232
Rent	13,699	22,407	-	36,106
Repairs and maintenance	538,620	-	-	538,620
Security	227,839	-	-	227,839
	<u>2,962,298</u>	<u>36,395</u>	<u>-</u>	<u>2,998,693</u>
<b>Other operating expenses:</b>				
Professional services and contracted services	963,454	186,324	-	1,149,778
Education and promotional	669,766	-	-	669,766
Loan servicing and collection	610,445	-	-	610,445
Annual meeting	216,722	-	-	216,722
Monthly statements	131,696	-	-	131,696
Online Services	664,845	-	-	664,845
Bank service charges	147,725	3,914	-	151,639
Federal operating	125,602	-	-	125,602
Office supplies	91,628	4,344	-	95,972
Commission and fees	-	55,555	-	55,555
Travel and conferences	142,137	-	-	142,137
Employees activities	21,810	-	-	21,810
Loss on disposition of assets	58,778	-	-	58,778
Dues and subscriptions	44,860	-	-	44,860
Other miscellaneous	339,761	56,033	-	395,794
Total other operating expenses	<u>4,229,229</u>	<u>306,170</u>	<u>-</u>	<u>4,535,399</u>
Total other expenses (excluding interest)	<u>\$ 15,382,806</u>	<u>\$ 342,565</u>	<u>\$ -</u>	<u>\$ 15,725,371</u>

Caribe Federal Credit Union  
**CONSOLIDATING STATEMENT OF FINANCIAL CONDITION**  
 At December 31, 2023

<b>Assets</b>	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2023</b>
Cash, cash equivalents and restricted cash	\$ 30,565,859	\$ 501,378	\$ -	\$ 31,067,237
Certificates of deposits (maturity greater than three months)	17,097,374	20,760	-	17,118,134
Investments in securities	90,589,326	-	-	90,589,326
Loans receivable in portfolio, net	508,218,231	-	-	508,218,231
Accrued interest receivable	2,039,106	-	-	2,039,106
Accounts receivable, net	773,184	64,042	-	837,226
Prepaid expenses	326,140	63,524	-	389,664
Property and equipment, net	11,338,882	4,240	-	11,343,122
NCUSIF deposit	5,405,540	-	-	5,405,540
Art collections	107,619	-	-	107,619
Foreclosed and repossessed assets	349,794	-	-	349,794
Investment in unconsolidated subsidiary, net	534,088	-	(534,088)	-
Other assets	746,106	11,495	-	757,601
<b>Total assets</b>	<b>\$ 668,091,249</b>	<b>\$ 665,439</b>	<b>\$ (534,088)</b>	<b>\$ 668,222,600</b>
<b>Liabilities and Members' Equity</b>				
Members' shares accounts	\$ 586,719,336	\$ -	\$ -	\$ 586,719,336
Borrowed funds	12,530,822	-	-	12,530,822
Accounts payable and accrued liabilities	5,094,800	131,351	-	5,226,151
Accounts payable to auto dealers	2,636,086	-	-	2,636,086
<b>Total liabilities</b>	<b>606,981,044</b>	<b>131,351</b>	<b>-</b>	<b>607,112,395</b>
<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	-	-	-	-
Unappropriated earnings	61,934,494	(965,912)	-	61,934,494
Accumulated deficit	-	-	965,912	-
Accumulated other comprehensive loss	(824,289)	-	-	(824,289)
<b>Total members' equity</b>	<b>61,110,205</b>	<b>534,088</b>	<b>(534,088)</b>	<b>61,110,205</b>
<b>Total liabilities and members' equity</b>	<b>\$ 668,091,249</b>	<b>\$ 665,439</b>	<b>\$ (534,088)</b>	<b>\$ 668,222,600</b>

Caribe Federal Credit Union  
**CONSOLIDATING STATEMENT OF INCOME AND EXPENSES**  
 At December 31, 2023

	<b>CFCU</b>	<b>BCA</b>	<b>Eliminations</b>	<b>2023</b>
Interest income:				
Interest and fees on loans	\$ 37,889,624	\$ -	\$ -	\$ 37,889,624
Interest on investments	2,602,374	-	-	2,602,374
Total interest income	<u>40,491,998</u>	<u>-</u>	<u>-</u>	<u>40,491,998</u>
Interest expense:				
Interest and dividends on members' shares and savings accounts	9,836,052	-	-	9,836,052
Income before provision for credit losses	30,655,946	-	-	30,655,946
Provision for credit losses	<u>(12,309,800)</u>	<u>-</u>	<u>-</u>	<u>(12,309,800)</u>
Net interest income after provision for credit losses	<u>18,346,146</u>	<u>-</u>	<u>-</u>	<u>18,346,146</u>
Other income (excluding interest)	4,474,381	387,872	-	4,862,253
Other expenses (excluding interest):				
Compensation and benefits	7,717,252	-	-	7,717,252
Occupancy and related	2,725,712	36,145	-	2,761,857
Other	3,874,510	283,635	-	4,158,145
Total other expenses (excluding interest)	<u>14,317,474</u>	<u>319,780</u>	<u>-</u>	<u>14,637,254</u>
Income before participation in losses of unconsolidated subsidiary and regulatory charges	8,503,053	68,092	-	8,571,145
Participation in profit of unconsolidated subsidiary	68,092	-	(68,092)	-
<b>Net income</b>	<u>\$ 8,571,145</u>	<u>\$ 68,092</u>	<u>\$ (68,092)</u>	<u>\$ 8,571,145</u>

Caribe Federal Credit Union  
**CONSOLIDATING SCHEDULE OF OTHER EXPENSES (EXCLUDING INTEREST)**  
 For the year ended December 31, 2023

	CFCU	BCA	Eliminations	2023
	\$	\$	\$	\$
<b>Compensation and benefits</b>	<u>7,717,252</u>	-	-	<u>7,717,252</u>
<b>Occupancy and related:</b>				
Depreciation and amortization	935,823	1,643	-	937,466
Occupancy and utilities	389,799	6,930	-	396,729
Communications	303,077	-	-	303,077
Insurance	435,138	5,267	-	440,405
Rent	13,498	22,206	-	35,704
Repairs and maintenance	425,942	100	-	426,042
Security	222,434	-	-	222,434
	<u>2,725,711</u>	<u>36,146</u>	-	<u>2,761,857</u>
<b>Other operating expenses:</b>				
Professional services and contracted services	953,391	175,232	-	1,128,623
Education and promotional	558,620	-	-	558,620
Loan servicing and collection	430,042	-	-	430,042
Annual meeting	195,281	-	-	195,281
Monthly statements	119,931	-	-	119,931
Online Services	725,719	-	-	725,719
Bank service charges	160,783	9,573	-	170,356
Federal operating	101,918	-	-	101,918
Office supplies	86,492	-	-	86,492
Commission and fees	-	1,717	-	88,209
Travel and conferences	162,004	59,554	-	59,554
Employees activities	19,528	-	-	162,004
Loss on disposition of assets	71,683	-	-	19,528
Dues and subscriptions	44,568	-	-	71,683
Other miscellaneous	244,552	37,557	-	44,568
Total other operating expenses	<u>3,874,512</u>	<u>283,633</u>	-	<u>282,109</u>
Total other expenses (excluding interest)	<u>\$ 14,317,475</u>	<u>\$ 319,779</u>	<u>\$ -</u>	<u>\$ 14,637,254</u>

# ANNUAL REPORT

# 2024



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