Caribe Federal Credit Union

CONSOLIDATED AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

For the years ended
December 31, 2022 and 2021

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REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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

AUDITORS' OPINION

We have audited the accompanying consolidated financial statements of the Caribe Federal Credit Union ("the Credit Union") which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related statements of income and expenses, changes in members' equity, comprehensive net income and cash flows for the years then ended, and the related notes to the financial statements.

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

BASIS FOR OPINION

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

MANAGEMENT'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Credit Union's ability to continue as a going concern for a reasonable period of time.

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

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements that collectively comprise the Credit Union 's consolidated financial statements. The consolidating information in pages 44-46 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subject to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the other information is fairly stated in all material respects in relation to the consolidated financial statements as whole.

Guaynabo, Puerto Rico
March 22, 2023

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

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

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

Caribe Federal Credit Union
CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES
For the years ended December 31, 2022 and 2021

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

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

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended on December 31, 2022 and 2021

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

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

Caribe Federal Credit Union

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended on December 31, 2022 and 2021

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

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

Supplemental Disclosures of Cash Flow Information

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

Also, during the years ended December 31, 2022 and 2021, unrealized gain (loss) on securities available-for-sale were recognized for ($2,028,968) and ($712,318), respectively, representing a non-cash item. Those charges are not reported as part of the net income for those years since they represent other comprehensive income.

During the year ended December 31, 2022, there was no transfers of loans, net to other real estate owned. During the year ended December 31, 2021, the transfers of loans, net to other real estate owned was $285,111.

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1. ORGANIZATION

Caribe Federal Credit Union ("the Credit Union") is a nonprofit organization established in 1951 organized and chartered under the Federal Credit Union Act. The Credit Union serves federal employees in Puerto Rico and the U.S. Virgin Islands, members of the *Liga de Estudiantes de Arte de San Juan,* select employee groups in Puerto Rico and immediate family members. Its purpose is to promote thrift among its members by affording them an opportunity to accumulate their savings and create for them a source of credit for productive purposes.

Business Consortium Alliance, Inc. (BCA) is a wholly owned subsidiary of the Credit Union (Parent Company). It is a credit union service organization ("CUSO") under the United States Credit Union Act. It was engaged in the development of its lines of business and in providing services to the Credit Union.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principles of Consolidation

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

Use of Estimates

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain figures in the accompanying 2021 financial statements were reclassified to conform to the 2022 presentation.

Concentrations of Credit Risk

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

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

Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Association (NCUA) up to $250,000 per institution. The bank balance of deposits in commercial banks amounting to $18,640,577 and $23,726,247 exceeded the amounts covered by federal depository insurance limits for the years ended December 31, 2022, and 2021, respectively. There was no bank balance of deposits exceeding the NCUA depository insurance limits at both December 31, 2022, and 2021, and the balance of deposits in *Banco Cooperativo* amounting to $1,557,350 and $905,858 on December 31, 2022 and 2021, respectively, were uninsured at that date.

Cash and Cash Equivalents

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

Investment Securities

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Securities held-to-maturity

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

Securities available-for-sale

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

Other than temporary decline in the fair market value

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

Loans Held for Sale

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans to Members and Allowance for Loan Losses

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

The evaluations take into consideration such factors as changes in the nature and volume of loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful. Regularly, this is applied to loans with delinquency greater than 89 days. The revenue for such interests not accrued is recognized when collected.

Loan Origination Fees

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

Accounts Receivable

Accounts receivables are stated at their net realizable value.

Property and Equipment

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

The Credit Union periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No indications of impairment are evident at December 31, 2022 and 2021.

Art Collection

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

NCUSIF Deposit

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

Assets Acquired in Liquidation of Loans

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

Operating Leases

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Members' Shares Accounts

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

Members' Equity

The Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not for the payment of dividends. The statutory reserve consists of $3,811,746 for 2022 and 2021.

Comprehensive Income

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

Advertising and Promotional Costs

Advertising and promotional costs are expended as incurred.

Federal and State Income Taxes

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

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3. CASH AND CASH EQUIVALENTS

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

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

4. CERTIFICATES OF DEPOSITS

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

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

5. INVESTMENT SECURITIES

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

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

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5. INVESTMENT SECURITIES (CONTINUED)

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

2022

Available for sale:

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

2021

Available for sale:

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

Held to maturity:

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

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5. INVESTMENT SECURITIES (CONTINUED)

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

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

	As of December 31, 2022					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Mortgage Corporation (FHLMC)	$ 2,993,797	$ (106,203)	$ -	$ -	$ 2,993,797	$ (106,203)
Federal Home Loan Bank (FHLB)	7,260,695	(239,305)	26,478,993	(1,721,007)	33,739,688	(1,960,312)
Federal Farm Credit Bank (FFCB)	11,272,723	(327,277)	4,167,967	(332,033)	15,440,690	(659,310)
Total	$ 21,527,215	$ (672,785)	$ 30,646,960	$ (2,053,040)	$ 52,174,175	$ (2,725,825)

	As of December 31, 2021					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Mortgage Corporation (FHLMC)	$ 7,706,307	$ (28,693)	$ -	$ -	$ 7,706,307	$ (28,693)
Federal Home Loan Bank (FHLB)	38,608,506	(491,494)	-	-	38,608,506	(491,494)
Federal Farm Credit Bank (FFCB)	23,423,330	(176,670)	-	-	23,423,330	(176,670)
Total	$ 69,738,143	$ (696,857)	$ -	$ -	$ 69,738,143	$ (696,857)

Unrealized losses as of December 31, 2022 and 2021 have not been recognized into income because they are not considered to be other-than temporary. Management considers the unrealized losses to be market driven, rather than credit driven and no loss will be realized unless the securities are sold.

6. LOANS

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

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

Loans Held for Sale

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

COVID 19 Moratoriums on Loan Repayments

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

6. LOANS (CONTINUED)

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

Allowance for Loan Losses

The allowance for loan losses reflects management judgement of probable loan losses inherent in the portfolio at balance sheet date. The Credit Union uses a disciplined methodology to establish the allowance for loan losses each quarter. A minimum of 1.45% and 1.20% of the outstanding loans portfolio is required by policy for the year ended December 31, 2022 and 2021, respectively. To determine the total allowance for loan losses, management estimates the provision needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a collectively basis.

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

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

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

6. LOANS (CONTINUED)

Loan Charge-Offs

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

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

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

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

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

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

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

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

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

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

6. LOANS (CONTINUED)

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

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

A summary of the changes in the allowance for loan losses at December 31, 2022 and 2021, by portfolio segment is as follows:

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

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6. LOANS (CONTINUED)

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

Non-Accruing Loans

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

Loans in which the accrual of interest has been discontinued or reduced amounted to $512,331 and $1,849,740, on December 31, 2022, and 2021, respectively. If interest on those had been accrued, such income would have approximately $23,096 and $525,077, at December 31, 2022 and 2021, respectively.

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

6. LOANS (CONTINUED)

Age Analysis of Loan to members Receivables by Category as of December 31, 2022

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

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

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

Credit Quality Information

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

6. LOANS (CONTINUED)

Credit Quality Levels, Credit Score and Loans' Risk Exposure

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

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

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

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

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

The following table represents the recorded investment in consumer loans based on different levels of risk of loss for the years ended December 31, 2022 and 2021.

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

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

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

6. LOANS (CONTINUED)

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

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

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

At December 31, 2022 and 2021 and based on the most recent analysis performed, the risk category of loans is as follows:

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

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

Impaired Loans

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

6. LOANS (CONTINUED)

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

Loans secured by collateral consist of $390,158,861 and of $314,064,934 for 2022 and 2021, respectively. The remaining balance represents loans partially secured and unsecured. The collections from most of the members' loans are by direct deposit through payroll deduction.

Troubled Debt Restructuring (TDR)

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

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6. LOANS (CONTINUED)

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

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

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

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6. LOANS (CONTINUED)

Loans to Related Parties

Certain officers, directors, and employees of the Credit Union had loans and share accounts with the Credit Union during 2022 and 2021. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection. Total loans outstanding and shares to these related parties at December 31, 2022 and 2021, are as follow:

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

7. ACCRUED INTEREST RECEIVABLE

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

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

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8. PROPERTY AND EQUIPMENT

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

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

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

9. FORECLOSED AND REPOSSESSED ASSETS

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

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

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10. OTHER ASSETS

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

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

11. MEMBERS' SHARES ACCOUNTS

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

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

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

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

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

11. MEMBERS' SHARES ACCOUNTS (CONTINUED)

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

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

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

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

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

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

13. SERVICE FEE AND NON-INTEREST INCOME

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

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

14. NON-INTEREST EXPENSES

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

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

15. DEFERRED COMPENSATION PLAN

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

15. DEFERRED COMPENSATION PLAN (CONTINUED)

Employees are eligible to enter the plan if they have attained eighteen (18) years old and completed twelve months of service. The normal retirement date is the first day of the month after the participants 62nd birthday and after completing twenty (20) years of service.

The plan also provides for early retirement. A participant may elect to retire at any time after attaining fifty-five (55) years old and completing seven (7) years of service. Vesting is accumulated after the second year on the plan for a period of five years at 20% per year. At termination of employment, the vested portion of a participant's account will be paid following the next annual benefit payment date.

During the years ended December 31, 2022 and 2021, the Credit Union contributed $181,697 and $161,009, respectively, to the pension plan.

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES

Fiscal Crisis

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

Exposure of the Credit Union

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

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

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

Interest Rate Risk

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

Litigation

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

Loan Commitments

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

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

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)

In addition, the Credit Union had pending to deliver certain payments to auto dealers subject to the presentation of required documents. As of December 31, 2022, and 2021, payments amounted to $3,268,284 and $7,527,319, respectively, and are recorded as accounts payable to dealers in the accompanying financial statements.

Off-Balance Sheet Risk

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

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

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

Line of Credit

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

Lease Commitments

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

16. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES (CONTINUED)

BAIA shall have the option to extend the term of this lease. The lease requires BAIA to pay 20% of the monthly electricity bill. For the years ended December 31, 2022 and 2021, the rental expense for this lease was approximately $22,598 and $21,284, respectively. The future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms more than one year as of December 31, 2022 are $30,600.

17. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The estimated fair values of the Credit Union’s financial statements, none of which are held for trading purposes, are as follows at December 31, 2022 and 2021:

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

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

17. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

- Members' shares accounts:

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

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

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

Fair Value of Financial Instruments Measured on a Recurring Basis

The fair values of assets and liabilities measured on a recurring basis at December 31, 2022 and 2021 are as follows:

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

18. REGULATORY CAPITAL

The Credit Union is subject to various regulatory capital requirements administered by its primary federal regulator, the NCUA. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Credit Union's consolidated financial statements. Under the capital adequacy guidelines and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated

18. REGULATORY CAPITAL (CONTINUED)

under GAAP. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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

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

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

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

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

18. REGULATORY CAPITAL (CONTINUED)

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

19. CURRENT ACCOUNTING DEVELOPMENTS

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

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

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

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

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

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

19. CURRENT ACCOUNTING DEVELOPMENTS (CONTINUED)

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

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

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

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

20. SUBSEQUENT EVENTS

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

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Caribe Federal Credit Union

CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

At December 31, 2022

Assets	CFCU	BCA	Eliminations	2022
Cash and cash equivalents	$ 29,312,305	$ 457,781	$ -	$ 29,770,086
Certificates of deposits	14,180,000	20,685	-	14,200,685
Investment securities	52,174,175	-	-	52,174,175
Loans to members, net	538,618,231	-	-	538,618,231
Accrued interest receivable	1,809,831	-	-	1,809,831
Accounts receivable, net	16,113	50,244	-	66,357
Prepaid expenses	314,691	33,451	-	348,142
Property and equipment, net	11,487,642	4,638	-	11,492,280
NCUSIF deposit	5,057,111	-	-	5,057,111
Art collections	107,619	-	-	107,619
Foreclosed and repossessed assets	273,371	-	-	273,371
Investment in unconsolidated subsidiary, net	465,995	-	(465,995)	-
Other assets	777,631	30,057	-	807,688
Total assets	$ 654,594,715	$ 596,856	$ (465,995)	$ 654,725,576
Liabilities and Members' Equity				
Members' shares accounts	$ 556,664,893	$ -	$ -	$ 556,664,893
Borrowed funds	$ 25,059,983	$ -	$ -	25,059,983
Accounts payable and accrued liabilities	4,342,105	130,861	-	4,472,966
Accounts payable to auto dealers	3,268,284	-	-	3,268,284
Total liabilities	589,335,265	130,861	-	589,466,126
Members' Equity				
Capital stock - authorized 10,000 shares with a par value of $100, issued and outstanding 5,000 shares	-	500,000	(500,000)	-
Additional paid-in capital	-	1,000,000	(1,000,000)	-
Appropriated regular reserve	3,811,746	-	-	3,811,746
Unappropriated earnings	64,173,529	-	-	64,173,529
Accumulated deficit	-	(1,034,005)	1,034,005	-
Accumulated other comprehensive loss	(2,725,825)	-	-	(2,725,825)
Total members' equity	65,259,450	465,995	(465,995)	65,259,450
Total liabilities and members' equity	$ 654,594,715	$ 596,856	$ (465,995)	$ 654,725,576

Caribe Federal Credit Union

CONSOLIDATING STATEMENT OF INCOME AND EXPENSES

For the year ended December 31, 2022

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

Caribe Federal Credit Union

CONSOLIDATING SCHEDULE OF NON-INTEREST EXPENSES

For the year ended December 31, 2022

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