Cooperativa de Ahorro y Crédito de Barranquitas
CREDICENTROCOOP

AUDITED FINANCIAL STATEMENTS

For the years ended
December 31, 2019 and 2018

Cooperativa de Ahorro y Crédito de Barranquitas

AUDITED FINANCIAL STATEMENTS

For the years ended
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CONTENT

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cooperativa de Ahorro y Crédito de Barranquitas
Barranquitas, Puerto Rico

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Cooperativa de Ahorro y Crédito de Barranquitas ("the Credit Union"), that consist in the statement of financial condition as of December 31, 2019 and 2018 and the related statements of income and expenses, changes in members' equity, comprehensive net income and cash flow for the years then ended and the corresponding notes to the financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Credit Union's management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting principles in the United States; this includes 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.

AUDITORS' REPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material statements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures realize in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control of the Credit Union. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

BASIS FOR ADVERSE OPINION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA

Credit union's management decided to continue with the presentation that is promulgated by the Public Corporation for the Supervision and Insurance of Credit Union in Puerto Rico (COSSEC, by its acronym in Spanish) in accordance with Law 255 of October 28, 2002 amended by Law 220 of December 15, 2015 of the Commonwealth of Puerto Rico, which is considered a different accounting basis to the generally accepted accounting principles in the United States.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

The effect on the financial statements of the variances between the regulatory basis and generally accepted accounting principles in the United States are significant. If the items described in Note 3 had been classified in accordance with the generally accepted accounting principles, the total assets decrease by $5,135,317 and $5,678,156, liabilities would increase by $51,920,467 and $48,727,915, and members' equity decrease by $57,055,784 and $54,406,071 as of December 31, 2019 and 2018, respectively. Additionally, net income decreases by $5,635,317 and $6,100,950 for the years ended December 31, 2019 and 2018, respectively.

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

In our opinion, because of the significance of the matters discussed in the paragraph of the Basis for Adverse Opinion at December 31, 2019 and 2018, according to generally accepted accounting principles in the United States, the financial statements referred to above do not present fairly, in all material respects, the financial situation of the Credit Union as of December 31, 2019 and 2018, the results of operations, changes in member's equity, comprehensive net income and cash flows for the year ended on that date, in accordance with generally accepted accounting principles in the United States.

OPINION ON REGULATORY BASIS OF ACCOUNTING

In our opinion, the financial statements accompanying present fairly, in all material respects, the financial position of the Credit Union as of December 31, 2019 and 2018 and the results of operations, changes in members' equity and cash flows for the year ended, in accordance with the regulatory basis described in Note 2 of the financial statements.

March 9, 2020
San Juan, Puerto Rico

Stamp No. E-401937
was adhered to the original

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Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF FINANCIAL CONDITION
As of December 31, 2019 and 2018

ASSETS	**2019**	**2018**
Cash and cash equivalents	$ 17,333,873	$ 17,441,728
Savings certificates (maturity over three months)	5,750,000	4,620,611
Investment securities		
Available for sale	19,271,742	26,196,095
Special investments	-	2,827,997
Loans receivable, net of allowance for loan losses	160,147,957	142,659,904
Investment in cooperative entities	14,919,604	14,523,526
Property and equipment, net of accumulated depreciation	7,023,548	5,784,660
Other assets	9,356,802	10,202,065
Total assets	$ 233,803,526	$ 224,256,586
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Deposits	$ 133,959,790	$ 133,221,648
Certificates of deposits	26,223,552	22,932,217
Accounts payable and accrued expenses	7,366,521	6,731,934
Total liabilities	167,549,863	162,885,799
Members' Equity:		
Shares, par value of $10	51,420,467	48,227,915
Reserve for indivisible capital	7,573,750	7,491,817
Reserve for social capital	1,600,263	1,514,860
Special temporary reserve	1,389,564	1,389,564
Reserve for contingencies	3,203,529	2,446,798
Acumulative net comprehensive gain (loss)	266,090	(200,167)
Unidistributed earnings	800,000	500,000
Total members' equity	66,253,663	61,370,787
Total liabilities and members's equity	$ 233,803,526	$ 224,256,586

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

Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF INCOME AND EXPENSES
For the years ended December 31, 2019 and 2018

	2019	**2018**
Financial operations revenues:		
Interest income:		
Loans	$ 10,819,629	$ 9,937,922
Investment, certificates and savings accounts	812,702	834,547
Total Interest Income	11,632,331	10,772,469
Interest expense:		
Deposits and certificates of deposits	(786,074)	(766,084)
Net Interest Income	10,846,257	10,006,385
Provision for uncollectible loans	(1,982,787)	(1,691,760)
Net interest income after provision for uncollectible loans	8,863,470	8,314,625
Other income	2,253,832	2,082,475
General and administrative expenses	(8,918,638)	(8,892,529)
Net income before losses under special amortization	2,198,664	1,504,571
Losses under special amortization	(560,000)	(445,000)
NET INCOME	$ 1,638,664	$ 1,059,571

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

Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended December 31, 2019 and 2018

	Acciones	Reserva Capital Indivisible	Reserva Capital Social	Reserva Especial Temporal	Reserva para Contingencias	Ganancia (Pérdida) Neta Comprensiva Acumulada	Sobrantes Sin Asignar
Balance at December 31, 2017	$ 46,445,361	$ 7,438,838	$ 1,250,854	$ 1,389,564	$ 1,940,206	$ 94,940	$ 500,000
Additional investment from members	6,092,264	-	-	-	-	-	-
Capitalized dividends	500,000	-	-	-	-	-	(500,000)
Withdrawal of members	(4,809,710)	-	-	-	-	-	-
Inactive account transfer	-	-	273,291	-	-	-	-
Claims of inactive accounts	-	-	(9,285)	-	-	-	-
Contribution of surplus to reserve	-	-	-	-	506,592	-	(506,592)
Net comprehensive loss	-		-	-	-	(295,107)	-
Contribution to reserve for indivisible capital	-	52,979	-	-	-	-	(52,979)
Net income	-	-	-	-	-	-	1,059,571
Balance at December 31, 2018	$ 48,227,915	$ 7,491,817	$ 1,514,860	$ 1,389,564	$ 2,446,798	$ (200,167)	$ 500,000
Additional investment from members	7,878,452	-	-	-	-	-	-
Capitalized dividends	500,000	-	-	-	-	-	(500,000)
Withdrawal of members	(5,185,900)	-	-	-	-	-	-
Inactive account transfer	-	-	140,886	-	-	-	-
Claims of inactive accounts	-	-	(55,483)	-	-	-	-
Contribution of surplus to reserve	-	-	-	-	756,731	-	(756,731)
Net comprehensive loss	-	-	-	-	-	466,257	-
Contribution to reserve for indivisible capital	-	81,933	-	-	-	-	(81,933)
Net income	-	-	-	-	-	-	1,638,664
Balance at December 31, 2019	$ 51,420,467	$ 7,573,750	$ 1,600,263	$ 1,389,564	$ 3,203,529	$ 266,090	$ 800,000

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

Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF COMPREHENSIVE NET INCOME
For the years ended December 31, 2019 and 2018

	2019	2018
Net income	$ 1,638,664	$ 1,059,571
Other comprehensive income:		
Change in unrealized gain on investment securities available for sale	466,257	(295,107)
Net comprehensive income	$ 2,104,921	$ 764,464

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

Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flow from operating activities:		
Net Income	$ 1,638,664	$ 1,059,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	481,435	618,278
Provision for uncollectible loans	1,982,787	1,691,760
Deferred cost in the origination of loans	10,921	11,658
Capital gain amortization	-	9,025
Gain on sale of investment securities	(9,965)	(36,748)
Amortization of loss on special investments	560,000	445,000
Amortization of premium and discount in marketable secutiries, net	64,666	24,228
Loss on assets disposition	363,536	-
Collection of loans previously reserved	468,910	464,033
Increase (decrease) in other assets	182,690	(746,311)
Increase in account payable and accrued expenses	634,587	903,664
Net cash provided by operating activities	6,378,231	4,444,158
Cash flow from investing activities		
Increase in loans, net	(19,950,671)	(9,177,169)
(Increase) decrease in savings certificates	(1,129,389)	7,229,081
Purchase of property and equipment, net	(2,083,859)	(906,626)
Increase in investment in cooperatives entities	(396,078)	(265,805)
Recoveries of claims of arbitrary and insurance	102,573	220,881
Product of sales and recoveries of repayments of marketable securities	36,668,964	6,246,329
Adquisition of negotiable securities	(26,505,058)	(22,640,533)
Net cash provided by investing activities	(13,293,518)	(19,293,842)
Cash flow from financing activities		
Increase in deposits, net	823,545	9,406,312
Increase (decrease) in certificate of deposits, net	3,291,335	(1,016,646)
Increase in shares, net	2,692,552	1,282,554
Net cash used in financing activities	6,807,432	9,672,220
Net increase (decrease) in cash and equivalents	(107,855)	(5,177,464)
Cash and equivalents at beginning of year	17,441,728	22,619,192
Cash and equivalents at end of year	$ 17,333,873	$ 17,441,728

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

Cooperativa de Ahorro y Crédito de Barranquitas
STATEMENTS OF CASH FLOW
For the years ended December 31, 2019 and 2018

	2019	2018
Supplemental Disclosure:		
Payment in cash for interest:		
Deposits	$ 786,074	$ 766,084
Financing and investment activities that do not involve cash:		
Dividends in shares	$ 500,000	$ 500,000
Undistributed earnings transferred to the indivisible capital	$ 81,933	$ 52,979
Net transfer to inactive accounts	$ 85,402	$ 264,006
Undistributed earnings transferred to the reserve for contingencies	$ 756,731	$ 506,592
Loss under special amortization (Law 220)	$ 196,940	$ 656,689
Change in net comprehensive income (loss) during the year	$ 466,257	$ (295,107)

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

1. ORGANIZATION

The Credit Union is regulated by Law 255, approved on October 28, 2002, known as "Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002", as amended, and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC by its acronym in Spanish). It is a nonprofit organization and is primarily dedicated to receiving savings from its members in the form of shares and deposits, from non-members in the form of deposits and to provide them financial and investment resources.

2. REGULATORY MATTERS

Law Number 114 of August 17, 2001

The Law 114 of August 17, 2001, *Public Corporation for the Supervision and Insurance for Credit Unions of Puerto Rico Law*, as amended, it provides, among others that:

a. From the first day of the month following the date of approval of this Act, the maximum combined amount of shares and deposits insured by a member or depositor will be two hundred and fifty thousand dollars ($250,000).

b. The Corporation has the obligation to decree and to take effect the increases in the maximum limits of the coverage insured established, in the dates which are provided in the law referred.

c. Although, the Board of COSSEC will have the authority to cease the effect, when the experience of losses from the shares and deposits insurance, the economic condition of the Corporation, the accepted actuarial determinations by the Board, indicated that no increase could be dictated, as soon as the circumstances that have obstruct its effectiveness on the corresponding date are overcome.

d. Each insured Credit Union must maintain in the Corporation, as capital contribution, an amount equal to one percent (1%) of the total of their holding members' shares and deposits as of June 30 of each operating year, as stated in the certified statement of members' shares and deposits or in the certified statement of financial condition as required by this Law.

e. The Corporation will establish the standards and procedures to determine annually the amount of deposit for capital contribution, that each insured Credit Union must maintain, as their shares and deposits vary. In addition, it will establish the standards and procedures to determine the annual increase that should be required in the amount of such capital contribution due to an increase in the shares and deposits insured.

f. When the sum of the unrestricted reserves, not compromised for payment of losses and total equity of the Corporation, exceed 2% of the total of members' shares and deposits insured, the Corporation will use such exceed for the payment of interest over capital. This interest will be determined based on the rate of the average return of total asset of COSSEC for 12 months prior to the date the payment is made, reduced by 1%.

g. Each Credit Union will pay an annual premium using a rate that fluctuates based on an indicator obtained from the total capital and insured deposits held by the Credit Union as of June 30 of each year. The Board of Directors of COSSEC may determine higher rates if they have the actuarial studies that support them.

Law Number 255 of October 28, 2002

The Law No. 255 of October 28, 2002, *Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002*, establishes the following requirements, among others:

Restricted Cash

The Credit Unions will maintain an amount of restricted cash of to be determined in the following manner:

a. The thirty five percent (35%) of the indivisible capital reserve must be maintained in liquid assets.

b. All Credit Union whose indivisible capital reserve is less than eight percent (8%) of its total risk assets will separate and incorporate annually to the indivisible capital, a twenty five percent (25%) from the net income until the reserve reaches and maintains the eight percent (8%) from the total assets subject to risk. All Credit Union, whose reserve for indivisible capital have reached and maintained a eight percent (8%) their assets subject to risk, will have discretion to reduce to no less than five percent (5%) the contribution to be transferred to the indivisible capital reserve. As of December 31, 2019, and 2018, the Credit Union reserve the amount of $81,933 and $52,979, respectively, as indivisible capital, which represents a five percent (5%) of their net income for both years.

c. Must maintain in liquid funds fifteen percent (15%) of the deposit's accounts.

d. Must maintain in liquid funds fifteen percent (15%) of the total certificates, excluding those that the maturity date is within the next 30 days, in which case, the twenty five percent (25%) must be maintained and, the certificates that are pledged, in which case, there will be no need to maintain liquid funds.

e. Must maintain eight-point thirty three percent (8.33%) of the monthly accumulative for those deposits of specific accounts until reaching a one hundred percent (100%).

As a result of the requirements the Law 255 mentioned above, the Credit Union maintained as of December 31, 2019 and 2018, the approximately amount of $26,822,958 and $26,178,472, respectively, in cash, , certificates and investment securities acceptable for liquidity, that are not available to be used in the current and normal operations. The required liquidity calculation is presented as follows:

	2019	2018
Required funds		
Reserve for indivisible capital (35% required)	$ 2,650,813	$ 2,622,136
Deposits and certificates with maturity more than 30 days (15%)	23,681,060	23,071,566
Certificates of deposits-maturity less than 30 days (25%)	307,331	303,783
Deposits for special events	183,754	180,987
Total required	26,822,958	26,178,472
Total of available funds	42,469,181	50,794,427
Liquid funds in excess of require by Law	$ 15,646,224	$ 24,615,955

Reserve for Indivisible Capital

The credit unions must maintain an irrepartible capital reserve that will be known as indivisible capital. The thirty-five percent (35%) of the indivisible capital reserve will be held in liquid assets.

Each Credit Union must maintain a minimum indivisible capital of eight percent (8%) of the total assets subject to risk. It will consider as elements of the indivisible capital reserve (to determine the percentage over the total risk assets) the following, in accordance the Law 255, as amended:

1. The reserve for indivisible capital, including the sum the Credit Union has accumulated until the effective date of this Law, after subtracting any accumulated or current loss;

2. Any capital reserves made by the Credit Union, except the reserve for unrealized losses or gains from available-for-sale securities as required by the pronouncement issued by the Financial Accounting Standard Board (FASB);

3. The fifteen percent (15%) of the undistributed retained earnings by the Credit Union;

4. The portion of the reserves established by the Credit Union to absorb the possible future losses on loans or financing that are not delinquent;

5. The capital obligations issued by the Credit Union and those financial instruments authorized by the Corporation (COSSEC) expressly for their inclusion as part of the indivisible capital;

6. Other elements established by the Corporation (COSSEC) through ruling or administrative determination.

The indivisible capital rate of its total assets subject to risk is determined as follows:

Elements of Indivisible Capital	Amount
Indivisible capital reserve	$ 7,573,750
Other reserves	6,193,356
15% of the Credit Union's undistributed retained earnings	120,000
Portion of the allowance for loan losses for non-delinquent loans	1,414,953
Total elements of the indivisible capital	$ 15,302,059

Determintarion of Assets Subject to Risk	
Assets without risk with consideration of 0.00%	
100% cash in change in fund, petty cash and change in fund in transit	2,246,219
100% Obligations and debt securities, including portions from all of this, issued, insured or guaranteed unconditionally by the Commonwealth of Puerto Rico or its agenices, or by the United States Government or its agencies, including Federal Reserve Banks, Goverment National Mortgage Association (GNMA), Veterans Administration (VA), Federal Housing Administration (FHA), Farmers Home Administration (FmHA), Export-Import Bank (Exim Bank), Overseas Private Investment Corporation (OPIC), Commodity Credit Corporation (CCC) y Small Business Administration (SBA)	1,271,477
100% of the amount of members' loans guaranteed by shares, deposits or both which could not be withdraw from the Credit Union.	21,940,837
100% of the Credit Union's investment in COSSEC	2,096,851
Total assets without risk with consideration of 0.00%	$ 27,555,384
Assets subject to risk with consideration of twernty percent (20%)	
80% of items in process of collection	11,629,862
80% of interest in process of collection	91,113
80% Obligations and debt securities, including amounts from all of them, issued, secured or guaranteed by the Commonwealth of Puerto Rico or their agencies, or by the Government of the United States whose instruments are not explicitly bacled by the entire faith and credit of the Governemnet of the United States or Puerto Rico, including Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Farm Credit System, Federal Home Loan Bank System and Student Loan Marketing Association (SLMA).	13,831,459

80% of the deposits, loans, liabilities and debt securities, including amounts from all of them ,issued, secured or guaranteed by depository institutions of United States and Puerto Rico, including the Banco Cooperativo of Puerto Rico. Shares from non-profit entities are excluded.	5,040,000
80% of the historical cost of the real state or the appraisal value as certified by a qualified appraiser, whichever is less, that is being used or is projected to be used as offices, branches, service centers, parking areas or other facilities, net from any liability directly guaranteed by a mortgage lien on said property.	8,185,025
80% of the prepaid insurances which are risks for the Institution.	311,787
80% of the common or preferred shares from investments of Banco Cooperativo, Cooperativa de Seguros Múltiples and Cooperativa de Seguros de Vida (COSVI), subject to maintaining the pair value, as reflected in their financial statements and that they are redeemable.	9,797,903
Total assets subject to risk with consideration of twenty percent (20%)	$ 48,887,149
Assets subject to risk with consideration of fifty percent (50%)	
50% of the investment in shares of Central Credit Unions that have no current or accumulated losses.	19,261
Total assets subject to risk with consideration of fifty percent (50%)	$ 19,261
Total assets not subject to risk	$ 76,461,794

Rate of Indivisible Capital to Assets Subject to Risk	Amount
Total assets (excluding the allowance for uncollectible loans)	$ 273,016,083
Total assets not subject to risk	(76,461,794)
Total assets subject to risk	$ 160,554,289
Rate of indivisible capital to total assets subject to risks	**9.53%**

Law 220 of December 15, 2015, Accounting Requirements for Special Investments.

On December 15, 2015, Law 220 was approved to add to Law 255, *Ley de Sociedades Cooperativas de Ahorro y Credito de 2002*, as amended, a chapter entitled, accounting requirements to special investments. The Act requires that:

- The Credit Unions denominate all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA) acquired on or before March 31, 2015 as special investments.

- Requires special investments be recorded in the books of credit unions at amortized cost regardless of their classification as available for sale or held to maturity in the financial statements and unrealized losses related to special investments would not be presented.

- Any loss attributable to special investments in the disposition, withholding or related to the application of a statement of generally accepted accounting principles may be amortized over a period not exceeding 15 years, to be named as Losses under Special Amortization.

- Also requires a note to the financial statements with a specific language.

- The creation of a special temporary reserve of 10% of the unrealized loss of special investments plus other minimum contribution to the temporary reserve or the indivisible capital reserve that may vary between 5% to a 100% of the undistributed earnings subject to the levels of indivisible capital and the Credit union's CAEL index.

- Consider the annual amortization of special investments in the calculation of CAEL index. In addition, it allows the transfer of voluntary reserves not committed by the Credit Union to the special temporary reserve and to release the excesses of the temporary reserve above the losses under special amortization to indivisible capital, voluntary reserves, undistributed earnings and operational income.

- The creation of a special investment committee by the Board of Directors of the credit union for risk management of special investments.

Regulation No. 8665, Regulation on Accounting Standards for Credit Unions

On November 20, 2015, the Regulation on accounting standards for credit unions was established. The purpose of the regulation is to promulgate the standards and procedures of accounting, financial disclosure and internal controls that shall establish, maintain and use all the credit unions of Puerto Rico. Among several aspects, the Regulations require management's assessment on internal controls in the preparation of the financial statements and the preparation of a analysis report and discussion of management that should accompany the audited financial statements.

Regulation Number 8664, Regulatory Accounting Statement Pronouncement

On November, 2015, the regulatory accounting pronouncement was established, which includes the accounting requirements for special investments that Law 220 of December 15, 2015 incorporated and was previously described. During the fiscal year ended December 31, 2017, COSSEC issued the following circular letters, 2017-01 and 2017-02. Circular Letter 2017-01 specifies the accounting treatment of special investments according to the provisions of Act No. 220 of December 15, 2015 and Circular Letter 2017-02 mentions the applicable disclosure in the audited financial statements and its notes following the provisions of Act No. 220 of December 15, 2015.

Note of Special Investment Required by Act 220

During fiscal year 2018, the investment portfolio of the Credit Union includes a material amount of debt instruments issued by the Government of Puerto Rico and its agencies and public corporations (ELA). However, as of December 31, 2019, there was no adjusted amortized cost and market value of these special investment, because, during fiscal year 2019, the Credit Union sold all of its ELA positions. As of December 31, 2018, the adjusted amortized cost and market value of these special investment were $2,827,997 and $2,750,791, respectively. The Legislature of Puerto Rico adopted Act 220 of December 15, 2015, which, among other, provides that credit unions accounted bonds of the Commonwealth, its agencies and public corporations uniformly as investments held to maturity and if any loss is incurred in these special investments, it may be amortized for a period of up to 15 years. Also, it required in certain circumstances, an additional contributions to the capital structure of the credit union. The Credit Union established a Special Investment Committee as required by Law 255 of 2002, as amended, known as the *"Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002"*, to continuously monitor and evaluate the bond portfolio that resulted in the disposition of all these invesmtents.

Participation of Undistributed Earnings

The Board of Directors will make available for distribution the net undistributed earnings accumulated by the Credit Union at the end of each year, after the amortization of the accumulated losses, if any, followed by the contribution to the reserve for indivisible capital, mandatory and voluntary reserves, in accordance with Law 255, as amended. There shall be no distribution of undistributed earnings accumulated as the Credit Union maintains accumulated losses, except for an exception as established by Law 255.

The undistributed earnings could be distributed as a reimbursement or return, computed considering the equity sponsorship of the interests collected, or a combination of such reimbursement for sponsorship along with the payment of dividends over the shares paid and non-withdrew at the end of the calendar year, in the proportion and amounts determined by the Board of Directors. All distribution of undistributed earnings shall be made in shares, never in cash.

The distribution of the unassigned earnings is approved by the Board of Directors according to the procedures established by Law 255 mentioned above. Only those shares totally paid and non-withdrew at the year-end have the right for such distribution.

Unclaimed Accounts

The amounts of money and other liquid assets held by the Credit Union that have not been claimed or that is not subject of any transaction during five (5) consecutive years, except for those quantities coming from shares accounts, will be transferred to a reserve of social capital of the Credit Union or to its indivisible capital, at the option of the Credit Union. Neither the imposition of service charges nor the payment of interest or dividends shall be regarded as a transaction or activity in the account.

In or before the sixty (60) days after the close of the fiscal year of the Credit Union, it shall be obliged to notify the owners of the inactive accounts that the account will be transferred. This will be done through the publication of a list in a visible place in the branches and service offices of the Credit Union for a period of ninety (90) consecutive days. At the same time, a notice will be published in a newspaper of general circulation in Puerto Rico, which will be entitled "Aviso de Dinero y Otros Bienes Líquidos No Reclamados en Poder de la Cooperativa de Ahorro y Crédito de Barranquitas". The expenses incurred by the Credit Union in relation with the publication of the notice will be deducted proportionally from each unclaimed account balance.

Any person who, during the period of ninety (90) days mentioned above, present irrefutable evidence of ownership of one or more accounts identified in the list, shall have the right that the same be removed from the list and not be subjected to the transfer to the capital reserves.

After the transfer of an account or other liquid assets to capital reserve, they will only admit claims presented no later than five (5) years from the transfer. In such cases the Credit Union may impose administrative charges for procedures of investigation and analysis of the claim.

In conformity with these dispositions, according to Law 255, the Credit Union, its share accounts and deposits and its reserves shall be exempt from the dispositions of the Law Number 36 of July 28, 1989, as amended, known as the "Ley de Dinero y Otros Bienes Líquidos Abandonados o No Reclamados".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies that the Credit Union follows are in conformity with the practices in the industry, the Law 255, regulations issued by COSSEC, and with the generally accepted accounting principles in the United States of America. The most significant policies are as follows:

Use of Estimates

The management of the Credit Union uses estimates to determine certain accumulations and provisions in the accompanying financial statements. However, the use of estimates in the financial statements may present information that does not agree with the actual items that will affect the financial statements.

Reclassifications

Certain reclassifications area made in the Credit Union's financial statements to adjust assets and liabilities related to the presentation required in accordance with Law No. 255, amended by Law 220, and generally accepted accounting principles in the United States of America. In addition, certain reclassifications were made to the financial statements of the year 2018, to conform with the presentation of the financial statements of the year 2019.

Tax Exemption

The Credit Unions, its subsidiaries or affiliates will be exempt from any kind of taxation on income, property, arbitration, patent or any other tax imposed or that would later be imposed by the Commonwealth of Puerto Rico o any political subdivision thereof. All the shares and securities issued by the Credit Union and by any of its subsidiaries or affiliates will be exempt, both at their total value and in the dividends or interest paid under them, from any kind of taxation on income, property, arbitration, patent or any other tax imposed or that would later be imposed by the Commonwealth of Puerto Rico or any political subdivision thereof.

The credit unions and their subsidiaries or affiliates will be exempt from the payment of rights, arbitration or state or municipal taxes, including the payment of charges for licenses, patents, permits and registrations, the payment of charges, rights, stamps or internal revenue vouchers related with the inscription of them in the Property Registry, among other exemptions in accordance with the Article 6.08 from Law 255.

Redistribution Law and Adjustment of Tax Burden

On June 30, 2013, Law No. 40 called **"Ley de Redistribucion y Ajuste de la Carga Contributiva"** was approved. Law 40 establishes significant changes to the tax system for individuals, corporations, partnerships and other legal entities and modifies the system of Sales and Use Tax (IVU by its acronym in Spanish). Law 40 eliminates the exemption of arbitration and IVU on purchases of goods and services enjoyed by the Credit Union.

Law 40 limits the exemption from business to business services accordingly, the following services are considered taxable services of IVU, from the approval of the law, whether performed by a merchant to another business (1) Bank charges that financial institutions makes their commercial customers by the concept of managing bank accounts, excluding fees related to transactions of investment banking (2) Collection services (3) Armored and private investigations services (4) Cleaning services (5) Laundry services (6) Repair and maintenance services (non-capital) of real property and tangible property (7) Telecommunications services, including telephone, internet, cellphones, among others (8) Waste collections services.

Law 40 also provides that every merchant providing taxable services will be obligated to collect, retains and deposit the IVU, although such services are provided to another merchant.

Enforcement Tax Effective Mechanisms Law

On December 25, 2013, Law No. 163 was approved, "**Ley de Mecanismos Efectivos de Fiscalización Contributiva"** this law is intended to address the fiscal situation of Puerto Rico in a responsible and fair way for citizens and achieve a tax system in which all components have simple dispositions to facilitate compliance, but also maximize the capture of each taxes (income tax, sales and use tax, municipal patent, tangible property). The Law requires credit unions and other taxpayers, under certain conditions, to submit supplemental information underlying to the financial statements, which have been subjected to the auditing procedures applied in the audit of the financial statements by a Certified Public Accountant (CPA), with valid license in Puerto Rico. The supplemental information is provided in the form of annexes, covered by the Law and from the accounting records for a specific accounting period and that nourish the audited financial statements. The annexes will be subject to the audit procedures of the financial statements using the generally accepted auditing standards in the United States of America for supplemental information. The Law is applicable to credit unions whose turnover is equal to or greater than $3 million and the taxable years started after December 31, 2012.

Amendments to the Internal Revenue Code of Puerto Rico

On May 29, 2015, Law No. 72 (Law 72) was approved, which amends several sections of the Puerto Rico's Internal Revenue Code of 2011 (Code). Among other things, the Law 72 increases the rate of Sales and Use Tax (IVU) applicable to the state portion from 6% to 10.5%, effective July 1, 2015. The municipal portion of said tax remained in 1%; therefore, the total rate applicable to the sale and use of taxable items as of July 1, 2015 is 11.5%. The Law 72 includes other additional dispositions and other clarifying dispositions whose administrative guidelines, that the Department of the Treasury will publish in a timely manner.

Cash and Cash Equivalents

The Credit Union consider as cash and equivalents, checking accounts held at local banks, petty cash, change in funds, savings accounts, cash investments and savings certificates with maturity of ninety (90) days or less from the date of the financial statements.

Loans to Members and Non-Members

The Credit Union grants personal loans to their members up to forty thousand dollars ($40,000) and in mortgage loans up to $500,000, and to non-members limited to the deposits held at the Credit Union. The loans granted to members and non-members are documented following the practices used in the administration of financial institutions, which are recognized as good practices and in protection of the public interest. The loans receivables are recognized upon disbursement of the loan and the transaction is supported with a promissory note or loan contract and upon compliance with the requirements established in the granting loans, subject to the policies or regulations approved by the Board of Directors or the corresponding directing bodies.

Independently of the guarantees and collaterals offered, any credit union would grant a loan to any person, without confirming and documenting the existence of reliable sources for the repayment of the loan in the terms agreed to, providing that such sources could be enough deposits maintained and withheld by the Credit Union, including the non-members, liquid assets as established in Article 2.03 of Law 255. The Credit Union could grant, among other services, personal loans, mortgages, auto, lines of credit, credit cards, and collateralized, subject to the adoption and effectiveness of policies and procedures for the credit evaluation, specifically adopted for commercial lending implemented through commercial credit officials, properly qualified for that function.

Loan Origination Direct Costs

The Credit Union adopted the Accounting Standard Codification ("ASC") 320-10, *Non-Refundable Fees and Other Costs*, this standard establishes that the direct loan origination costs be deferred and amortized, and the revenues produced from the lending activity fees, be recognized over the life of the loan.

Investment in Negotiable Instruments

Investment in securities consist primarily of agency securities and obligations issued by the United States Government, obligations of corporations of the United States and securities collateralized by mortgages on residential, commercial property, and other assets of the United States. The Credit Union classifies investments in debt instruments as marketable securities available for sale and held to maturity.

The Credit Union records the investments in securities of United States in accordance with ASC 320 *Investments – Debt and Equity Securities.* Also, ASC 942-825, *Financial Instruments*, allows entities that elect to do so, have the option to report some financial assets and liabilities at their market value and establish the requirements of presentation and disclosure designed to ease the comparison between companies that choose different methods of measuring the same type of assets and liabilities.

Securities held-to-maturity

Investments securities held-to-maturity are those which Management has the intent and ability to held to maturity. These are register at cost, adjusted by the amortization of premiums or discounts, using the straight-line method. The cost of the securities sold for the purpose to determine gains or losses are based by the amortized value in books and are written down using the specific-identification method.

Securities available-for-sale

Securities available-for-sale are presented at fair market value. The gains or losses by the difference between the book value and market value are presented in the section of the participation of members of the Credit Union. The Institution uses the specific-identification method to write-down those securities sold or held.

The gain or loss realized on the sale of marketable securities available for sale is determined using the specific-identification method to determine the cost of the instrument sold. In addition, management, assesses individually all the marketable securities in the portfolio to determine whether any decrease in market value is temporary or not. Any other than temporary impairment is reflected in the operations of the current period and reduces the value of the investment in the books.

Amortization of Premiums and Discounts

The premiums and discounts on debt securities are amortized over the remaining life of the related instrument as an adjustment on its performance using the straight-line method. The dividends and interest income are recognized when accrued.

Other than temporary impairment in the fair market value

The management of the Credit Union evaluates investments for other than temporary impairment in fair market value on an annual basis. To determine if the deterioration in the value of the instrument is of a temporary nature or not, the Credit Union considers all relevant and available information about the collectability of the instrument, including past events, current conditions and projections and reasonable estimates that supports the amount of cash receivables from the instrument. Within the evidence of this estimate, are the reasons for the deterioration, the duration and severity of these, changes in valuation following the close of the fiscal year, the projected performance of the issuer and the general condition of the market in the geographical area or industry where it operates. This evaluation is realized annually by the Credit Union's management. Once the decrease is determined to be other than temporary impairment or is impaired, the value of the debt instrument is reduced, and the corresponding charge is recognized in the statement of income and expense for the anticipated credit losses.

The analysis of losses requires the management of the Credit Union to consider several factors that include but are not limited to the following: 1) the time period and severity in which the market value is below the amortized cost of the investment 2) the financial condition of the issuer of the debt instrument 3) the attributes of collateral and guarantees 4) the structure of payments of principal and interest of the investment's value and the collectability of the instrument 5) changes in the credit rating granted by the major credit rating agencies 6) adverse conditions of the debt instrument, industry or geographical area 7) management's intention to sell the investment, or if it is more likely than not, the Credit Union will be required to sell the debt instrument before there is a recovery in the value of the instrument.

Comprehensive Net Income

The management of the Credit Union applied ASC 220, *Comprehensive Income,* where the disclosure of comprehensive net income is required. Comprehensive net income is the total of: (1) operating benefit plus (2) other changes in net assets arising from other services.

Special Investments

The Credit Union records the special investment according to the requirements of Law 220, *Accounting requirements for the special investment*. The Law requires that the Credit Union denominated all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations (Commonwealth) as special investments.

Also, it requires that special investments are recorded in the books of credit unions at amortized cost regardless of their classification in the financial statements and unrealized losses related to special investments are not presented. Any loss attributable to special investments may be amortized over a period not exceeding 15 years.

Investments in Credit Union Entities

Investments in credit union entities represent deposits made in entities and credit union organizations of Puerto Rico. The Credit Union records its investments in other credit unions at cost, increasing them by equity in income of the credit unions, once they are distributed through dividends in shares. The Credit Union evaluates the impairment of investments in credit union entities based on the financial statements issued by said entities.

Property and Equipment

Property and equipment are recorded at their acquisition cost. The improvements that prolong the life of the asset are capitalized. Maintenance and repairs that do not prolong the useful life of such assets are charged to operations. The depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset.

Management evaluates the book value of the property and equipment when events or changes in circumstances indicate that the asset´s book value may not be recoverable. The recoverability of the assets that will be used and retained is determined by comparing the book value with the future cash flows, without discounting, which is expected to be generated by the asset. If it is determined that an impairment in the value of a fixed asset has occurred, the difference between future cash flows, without discounting, and the book value of property and equipment is recognized against the operations of the year. As of December 31, 2019, and 2018, the Credit Union did not recognize losses by impairment in the value of fixed assets.

Repossessed Properties

The properties acquired by foreclosure, or in other types of liquidation are classified as available for sale and are recorded at the fair market value of property received at time of the acquisition less the cost to sell on the date of the acquisition.

Shares

The shares are recognized using the cash basis method. This method is generally accepted in the credit unions in Puerto Rico. The Credit Union do not issue certificates that represent common social capital. However, they maintain an account statement for each member that shows their participation in the Credit Union's capital. The Credit Union's capital is not limited in amount and consists of payments made by members to subscribe shares and the distribution of dividends in shares. In accordance with the Credit Union by-laws, the shares par value is ten dollars ($10). In virtue of such by-laws, each member must subscribe at least twelve shares (12) annually.

Mandatory and Voluntary Reserves

The Credit Union maintains several mandatory and voluntary reserves: Reserve of Social Capital, Special Temporary Reserve and Reserve for Contingencies. The use of these reserves must fulfill the purpose established in the Internal Regulations of the Credit Union. Below is a brief description of the mentioned reserves:

<u>Reserve for Social Capital</u>

This reserve was created to transfer those inactive accounts of more than five (5) years. If any person claims that account before five (5) years of been reserved, the Credit Union will return this amount less an administrative fee which will be deducted from the member's balance at the time of the claim.

<u>Special Temporary Reserve</u>

This reserve is required by Law 220 of December 15, 2015 as the Credit Union maintain losses under special amortization and is composed of 10% of the unrealized loss of special investments plus other minimum temporary reserve contributions that may vary from 5% to 100% of undistributed earnings subject to the indivisible capital levels and the CAEL index of the Credit Union. The Credit Union established the special temporary reserve required by Law 220 as of December 31, 2019 and 2018.

<u>Special Reserve for Contingencies</u>

This reserve is aimed at strengthening the capacity of the institution to respond to adverse or emergency situations that may arise in the future.

Dividends

The Board of Directors determined that the unassigned earnings of $800,000 and $500,000 for the years ended December 31, 2019 and 2018, respectively, were distributed in dividends.

Recognition of Interest Income and Expense

The interest income from loans are recognized using the accumulation method up to ninety (90) days. The interests are computed over the unpaid balance. The interest expense of certificates of deposits is computed and paid periodically in accordance with the agreement between the Credit Union and the member or client at the time of opening. The interest expense of deposit accounts is computed daily from the average daily balance of the account.

Operational Leases

The Credit Union recognizes rent expense using the straight-line method over the life of the lease contract, which includes estimated periods of renewal, where is appropriate to include them. As a result of the rent expense recognition through the straight-line method, a deferred rent amount could be recognized in the statement of financial condition.

Fair Value of Financial Statements

The Credit Union adopted the ASC 820. The ASC 820 defines the concept of fair value, establish a consistent framework for measuring fair value and expanded the disclosures about fair value measurements. In addition, this statement amended the ASC 825, "Disclosure about the Fair Value of the Financial Instruments", and in such a way, the Credit Union follows ASC 820 in the determination of the disclosure of the amount of the fair value.

<u>Determination of the Fair Value</u>

By disposition of the ASC 820, the Credit Union determines the fair value by the price to be received at the sale of the asset, or that would be paid to transfer a debt in an ordinary transaction between participants of the market at the date of measurement. The Credit Union seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, 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 and 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 hierarchy of fair value within which the measurement at fair value falls completely, will be determined based on the input of lower level that is significant for all the measurement made at fair value.

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

- *<u>Level 1 Input</u>* - Correspond to quoted prices (unadjusted) in active markets for identical assets and liabilities to which the entity can have the capacity to access at 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 enough volume to continuously offer information about pricing.

- *<u>Level 2 Input</u>* - Correspond to quoted prices 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, this 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); different inputs to the 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 and other means (inputs confirmed by the market)

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

Accounting Practices of Financial Accounting Standards Board (FASB) (ASU) 2016-13 in financial instruments, credit losses and measurement of credit losses in financial instruments

The FASB issued ASU 2016-13 in June 2016, which replaces the incurred loss model with an expected current credit loss model (CECL) The CECL model is applied to financial assets subject to credit losses and measured at amortized cost and certain exposures out of the statement of financial condition. Under current generally accepted accounting principles, an entity reflects credit losses on financial assets measured on an amortized cost basis only when the losses are probable and have been incurred, generally considering only past events and current conditions to make these determinations.

ASU 2016-13 prospectively replaces this approach with a vision of the future using a methodology that reflects expected credit losses over the life of financial assets, beginning when those assets are first acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions, and reasonable and sustainable forecasts that affect the collection of financial assets. ASU 2016-13 also revises the approach to recognize credit losses on available-for-sale securities by replacing the direct amortization approach with the reserve allocation approach and limits the reserve allocation to the amount in which the reasonable value of securities is less than amortized cost. In addition, ASU 2016-13 establishes that the initial allocation for credit losses on financial assets acquired with credit impairment is recorded as an increase in the purchase price, with changes after the provision recorded as expenses for credit losses. ASU 2016-13 also expands disclosure requirements with respect to an entity's assumptions, models, and methods for estimating the allowance for credit losses. The modifications of this update are effective for fiscal years beginning after December 15, 2022. Early adoption is permitted as of January 1, 2021. The Credit Union has not determined the effect that this new pronouncement could have on its financial statements.

Accounting Practices which Differ from the Generally Accepted Accounting Principles in the United States of America.

The Credit Unions of Puerto Rico present the shares of members in the members' equity section in the statement of financial condition. The accounting principles require that the shares be presented in the deposits' section of these same statement. Also, require the recognition of the distribution of its undistributed earnings as charges to the accumulated benefits and the accounting principles require that those distributions be recognized as interest expense.

During the year ended December 31, 2015, the Credit Union introduced Law 220, *Accounting Requirements for Special Investments* (Note 2). This Law required the adoption of its mandatory and immediate dispositions. This Law requires an accounting and other aspects that differ from generally accepted accounting principles in the United States of America (*US GAAP*). Accounting principles require that investments be recorded in accordance with the requirements of *ASC 320, Investments - Debt and Equity Securities.*

During the years ended December 31, 2019 and 2018, if the items described in Note 3 had been classified in accordance with generally accepted accounting principles in the United States of America, total assets would decrease by $5,135,317 and $5,678,156, liabilities would increase by $51,920,467 and $48,727,915, and members' equity would decrease by $57,055,784 and $54,406,071 as of December 31, 2019 and 2018, respectively. In addition, the net income would decrease in the amount of $5,635,317 and $6,100,950 for the years ended December 31, 2019 and 2018, respectively.

The following tables show a comparison and the most significant differences in the condensed statement of financial condition as of December 31, 2019 and the condensed statement of income and expenses for the year ended December 31, 2019 of the Credit Union in accordance with the accounting practices required by Law No. 255, as amended, and the Corporation (statutory financial statements) and generally accepted accounting principles in the United States of America (US GAAP).

Condensed Statement of Financial Condition as of December 31, 2019	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 23,083,873	-	$ 23,083,873
Investments in securities	19,271,742	-	19,271,742
Special investments	-	-	-
Loans, net	160,147,957	-	160,147,957
Losses under special amortization	5,135,317	(5,135,317)	-
Property, equipment and other assets	26,164,637	-	26,164,637
Total assets	$ 233,803,526	$ (5,135,317)	$ 228,668,209
Liabilities:			
Deposits	$ 160,183,342	51,420,467	$ 211,603,809
Other Liabilities	7,366,521	500,000	7,866,521
Total liabilities	$ 167,549,863	$ 51,920,467	$ 219,470,330
Members' Equity			
Shares	51,420,467	(51,420,467)	-
Indivisible capital and other reserves	12,377,542	-	12,377,542
Special Temporary Reserve	1,389,564	-	1,389,564
Cumulative comprehensive net income	266,090	-	266,090
Undistributed earnings (deficit)	800,000	(5,635,317)	(4,835,317)
Total members' equity	66,253,663	(57,055,784)	9,197,879
Total liabilities and members' equity	$ 233,803,526	$ (5,135,317)	$ 228,668,209

Condensed Statement of Income and Expenses for the year ended December 31, 2019	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 11,632,331	$ -	$ 11,632,331
Interest expense	(786,074)	(500,000)	(1,286,074)
Net interest income	10,846,257	(500,000)	10,346,257
Provision for uncollectible loans	(1,982,787)	-	(1,982,787)
Income after provision	8,863,470	(500,000)	8,363,470
Other income	2,253,832	-	2,253,832
General and administrative expenses	(8,918,638)	-	(8,918,638)
Other than temporary impairment of investments	(560,000)	(5,135,317)	(5,695,317)
Net income (loss)	$ 1,638,664	$ (5,635,317)	$ (3,996,653)

4. CASH AND CASH EQUIVALENTS

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

	2019	**2018**
Cash in banks	$ 4,090,973	$ 2,000,506
Savings accounts	10,446,681	9,035,665
Change in funds and petty cash	2,246,219	2,205,557
Savings certificates - maturity less than 90 days	550,000	4,200,000
Total of cash and cash equivalents	$ 17,333,873	$ 17,441,728

Concentration of Risk

The Credit Union maintains cash in various financial institutions (banks and credit unions) of Puerto Rico. The bank accounts in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) for $250,000 and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC by its acronym in Spanish), for up to $250,000 in each institution. The Credit Union maintains deposits for $5,529,661 in the Banco Cooperativo de Puerto Rico, which balances are not insured. However, in virtue of Article 2.04 of Law 255, the credit unions are authorized to make deposits in that institution. Also, the Credit Union complies with the requirement to maintain deposits in the Banco Cooperativo de Puerto Rico whose percentage is defined in Law Number 79 of September 25, 1992. Such law amends Law Number 88 of June 21, 1966, which created the Banco Cooperativo de Puerto Rico. As of December 31, 2019, the Credit Union maintained cash deposited over the amount covered by the insurance in FDIC and COSSEC by $250,000 and $$2,000,000, respectively.

5. INVESTMENT IN SECURITIES

As of December 31, 2019, and 2018, the amortized cost and fair market value of the investments securities available for sale are as follows:

December 31, 2019	Available for sale			
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S MUNICIPAL BONDS AND NOTES	$ 4,831,268	$ 165,008	$ -	$ 4,996,276
U.S TREASURY NOTES	8,992,871	4,467	(516)	8,996,822
FHLB	2,445,037	9,247	(8,164)	2,446,120
FFCB	347,743	10,331	-	358,074
FNMA	366	36	-	402
GNMA	333	29	-	362
CORPORATE DEBT	2,388,034	85,652	-	2,473,686
	$ 19,005,652	$ 274,770	$ (8,680)	$ 19,271,742

December 31, 2018	Available for sale			
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S MUNICIPAL BONDS AND NOTES	$ 4,524,792	$ 29,536	$ (107,901)	$ 4,446,427
U.S TREASURY NOTES	3,993,750	212	(1,905)	3,992,057
FHLB	5,897,676	1,950	(35,901)	5,863,725
FHLMC	749,133	864	(1,966)	748,031
FAMC	99,979	58	-	100,037
FFCB	10,733,130	4,036	(85,716)	10,651,450
FNMA	558	41	-	599
GNMA	418	25	-	443
CORPORATE DEBT	396,826	-	(3,500)	393,326
	$ 26,396,262	$ 36,722	$ (236,889)	$ 26,196,095

The amortized cost and the estimated market value of the investment in securities at December 31, 2019 and 2018, according to their maturity, are presented below. Investments expected maturities may differ from the original contract since the borrower has the right to cancel or prepay the obligation.

	2019		2018	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
one to five years	$ 14,172,295	$ 14,328,833	$ 8,000,976	$ 7,996,575
more than five years to ten years	4,382,542	4,471,079	14,612,501	14,506,244
mora than ten years	450,815	471,830	3,782,785	3,693,276
	$ 19,005,652	$ 19,271,742	$ 26,396,262	$ 26,196,095

6. SPECIAL INVESTMENTS

During the years ended December 31, 2019 and 2018, the Credit Union sold its special investment of the Government of Puerto Rico or its organizations that were in a state of impairment and that are covered by Act No. 220. The fiscal and economic situation of Puerto Rico, along with other factors such as declared moratoriums on the payment of the principal and interest on these debt obligations of the Government of Puerto Rico, including those issued or guaranteed by the ELA, led to the management of the Credit Union to conclude that the unrealized losses in these securities non-temporary.

The proceeds from the sales of these special investments led to the recording of additional losses under special amortization. The following is the information on sales and the effect it had on the balance to be amortized of the losses under special amortization during the year ended December 31, 2019 (See note 10):

	2019			
Issuer of debt instrument	Adjusted Amortized Cost	Sale Price	Increase Losses Under Special Amortization	Decrease Losses Under Special Amortization
Autoridad de Acueductos y Alcantarillados	$ 514,125	$ 514,125	$ -	$ -
Corporación Fondo de Interés Apremiante (COFINA)	165,050	165,060	-	(10)
Banco Gubernamental de Fomento	434	322	112	-
Sistema de Retiro de Empleados Públicos	420,000	420,000	-	-
ELA - Obligaciones Generales	1,237,068	1,026,050	211,018	-
Autoridad de Edificios Públicos	491,320	505,500	-	(14,180)
	$ 2,827,997	$ 2,631,057	$ 211,130	$ (14,190)

Also, during the year ended December 31, 2018, the proceeds from the sale of these special investments was approximately $3,837,482, the amortized cost net of impairment was approximately $4,273,709 and the additional losses under special amortization was $436,227. Furthermore, the sale of portion of special investments subsequent to December 31, 2018, and before the issuance of the financial statements for fiscal year 2018, had a proceed of $2,155,235 and additional losses under special amortization of $656,689 were incurred, which were registered as of December 31, 2018.

As of December 31, 2018, the amortized cost, the impairment or other than temporary impairment, adjusted cost, fair market value and unrealized losses of special investments were as follows:

Issuer of debt instrument	Amortized Cost	Total Impairment	Adjusted Cost	Market Value	Unrealized Loss
Autoridad de Acueductos y Alcantarillados	$ 764,440	$ (250,315)	$ 514,125	$ 545,625	$ 31,500
COFINA	360,000	(194,950)	165,050	162,000	(3,050)
Banco Gubernamental de Fomento	434	-	434	291	(143)
Sistema de Retiro de Empleados Públicos	1,189,583	(769,583)	420,000	400,500	(19,500)
ELA - Obligaciones Generales	2,115,959	(878,891)	1,237,068	1,109,875	(127,193)
Autoridad de Edificios Públicos	1,020,931	(529,611)	491,320	532,500	41,180
	$ 5,451,347	**$ (2,623,350)**	**$ 2,827,997**	**$ 2,750,791**	**$ (77,206)**

As of December 31, 2018, the movement of the impairment of the special investments are as follows:

	2018			
Issuer of debt instrument	Total Impairment 12/31/2017	Additions	Retirements	Total Impairment 12/31/2018
Autoridad de Acueductos y Alcantarillados	$ (221,782)	$ (28,533)	$ -	$ (250,315)
COFINA	(968,250)	(194,950)	968,250	(194,950)
Banco Gubernamental de Fomento	(1,716,067)	-	1,716,067	-
Sistema de Retiro de Empleados Públicos	(713,025)	(56,558)	-	(769,583)
ELA - Obligaciones Generales	(679,337)	(199,554)	-	(878,891)
Autoridad de Edificios Públicos	(352,517)	(177,094)	-	(529,611)
Autoridad de Energía Eléctrica	(845,022)	-	845,022	-
	$ (5,496,000)	**$ (656,689)**	**$ 3,529,339**	**$ (2,623,350)**

The following table shows the unrealized losses, the estimated market value and the time the investments arehave in the Credit Union in a position of unrealized loss as of December 31, 2018:

Issuer os debt instruments	Less than 12 months		12 Months or more		Total	
	Market Value	Unrealized Loss	Market Value	Unrealized Loss	Market Value	Unrealized Loss
Autoridad de Acueductos y Alcantarillados	$ -	$ -	$ 545,625	$ 31,500	$ 367,500	$ 31,500
COFINA			162,000	(3,050)	232,475	(3,050)
Banco Gubernamental de Fomento	-	-	291	(143)	661,411	(143)
Sistema de Retiro de Empleados Públicos			400,500	(19,500)	447,000	(19,500)
ELA - Obligaciones Generales	-	-	1,109,875	(127,193)	547,125	(127,193)
Autoridad de Edificios Públicos			532,500	41,180	217,500	41,180
	$ -	$ -	$ 2,750,791	$ (77,206)	$ 2,473,011	$ (77,206)

Adoption of Law 220 and Losses under Special Amortization

Law No. 220 adopted by the Credit Union during the year ended December 31, 2015 allows that any loss attributable to special investments in the disposal, retention or related to the application of a pronouncement of generally accepted accounting principles can be amortized for a period not to exceed 15 years, to be named Losses under Special Amortization. The other than temporary impairment in the debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA) classified as special investments were recorded as losses under special amortization and classified within the other assets as of December 31, 2019 and 2018. As of December 31, 2019 and 2018, the balance of losses under special amortization was $5,135,317 and $5,600,950, respectively (Note 10). These losses will be amortized for a period that will not exceed 15 years. During the years ended December 31, 2019 and 2018, the Credit Union recorded amortization of losses on special investments of $560,000 and $445,000, respectively.

Also in relation to the adoption of Act No. 220, the Credit Union created a special temporary reserve of 10% of the unrealized loss of special investments plus other minimum contributions that vary subject to indivisible capital levels and the CAEL composite index of the Credit Union. The special temporary reserve as of December 31, 2019 and 2018 was $1,389,564 for both periods and is presented in the statement of changes in members equity. The calculation of the special temporary reserve as of December 31, 2019 and 2018 was as follows:

	2019			2018		
	Amount	%	Determined Reserve	Amount	%	Determined Reserve
First Reserve - Unrealized Losses						
Unrealized losses	$ -			$ 77,206		
Losses under special amortization	5,135,317			5,600,950		
Total	5,135,317	10%	$ 513,532	5,678,156	10%	$ 567,816
Second Reserve - Undistributed earnings						
Undistributed earnings net of annual contribution to indivisible capital	$ 1,556,731	50%	778,366	$ 1,006,592	50%	503,296
Special temporary reserve			1,291,897			1,071,112
Additional temporary reserve - excess in capital			97,667			318,452
Special temporary reserve as of December 31			$ 1,389,564			$ 1,389,564

Expected Maturity of Special Investments

As we mentioned earlier, the Credit Union dispose all its positions in bonds of the Government of Puerto Rico. The amortized cost and estimated market value of special investments as of December 31, 2018, according to their maturity, are presented below. The expected maturities of the investments may differ from the original contract because the borrower has the right to cancel the obligation or prepay it.

	2019		2018	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
One to five years	$ -	$ -	$ 2,060,000	$ 915,625
More than five years to ten years	-	-	2,136,889	1,122,375
More than ten years	-	-	1,254,458	712,791
	$ -	$ -	$ 5,451,347	$ 2,750,791

7. LOANS

The following table shows the total of the loan portfolio of the Credit Union by the type and class of financing as December 31, 2019 and 2018:

	2019	2018
Commercial:		
Corporations	$ 5,858,129	$ 6,117,953
Non-profit entities	1,972,219	1,565,234
Total commercial	$ 7,830,348	$ 7,683,187
Consumer		
Personal	$ 75,686,272	$ 67,688,397
Collateral	7,542,025	6,772,291
Auto	29,707,980	20,142,634
Mortgage	39,431,309	40,548,387
Lines of credit	139,657	218,528
Credit cards	1,529,352	1,343,253
Other	900,594	126,951
Total consumer loans	154,937,189	136,840,441
Total loans	162,767,537	144,523,628
Less: Allowance for loan losses	(3,212,557)	(2,467,622)
Plus: deferred costs in loan origination	592,977	603,898
Total laons, net	$ 160,147,957	$ 142,659,904

Allowance for Possible Loan Losses

The allowance for possible loan losses is an estimate prepared by management that includes losses inherent to the loan portfolio as of the date of the statement of financial condition. The process to determine the allowance for possible losses involves specific procedures that consider the characteristics of risk of the commercial and consumer portfolio of the Credit Union.

Methodology used for the Computation of the Allowance for Possible Loan Losses in Commercial Loans

Generally, commercial loans are evaluated for possible losses, by grading each loan and using various risk factors as identified through periodic reviews. As of December 31, 2019, and 2018, the commercial loans were evaluated individually for impairment. The methodology used contemplated the present value of future cash flows discounted to the effective loan rate or the comparison of the fair market value of the collateral minus the costs for selling.

Methodology used for the Computation of the Allowance for Possible Loan Losses in Consumer Loans

For the consumer portfolio, the estimate used the guidelines of the percentage method established by Regulation 8665 of November 20, 2015 ("Regulation on accounting standards for Credit Unions"). In addition, experience analyzes, and risk factors developed by management were compared. The restructured loans were evaluated using the present value of the cash flows discounted at the interest rate of the original loan. The movement of the allowance for possible losses in the Credit Union's loan portfolio as of December 31, 2019 and 2018 is as follows:

2019

	Commercial	Consumer	Total
Beginning balance	$ 385,660	$ 2,081,962	$ 2,467,622
Additional provision of the year	-	1,982,787	1,982,787
Recoveries of loans previously reserved	-	468,910	468,910
Loans charged against the reserve	-	(1,706,762)	(1,706,762)
Ending balance	$ 385,660	$ 2,826,897	$ 3,212,557
Evaluation of reserve:			
Reserve evaluated individually	$ 385,660	$ -	$ 385,660
Reserve evaluated collectively	-	2,826,897	2,826,897
Total	$ 385,660	$ 2,826,897	$ 3,212,557
Loan balance:			
Evaluated individually	$ 7,830,348	$ -	7,830,348
Evaluated collectively	-	154,937,189	154,937,189
Total	$ 7,830,348	$ 154,937,189	$ 162,767,537

2018

	Commercial	Consumer	Total
Beginning balance	$ 710,474	$ 2,401,081	$ 3,111,555
Additional provision of the year	663,418	1,028,341	1,691,759
Recoveries of loans previously reserved	-	464,033	464,033
Loans charged against the reserve	(988,232)	(1,811,493)	(2,799,725)
Ending balance	$ 385,660	$ 2,081,962	$ 2,467,622
Evaluation of reserve:			
Reserve evaluated individually	$ 385,660	$ -	$ 385,660
Reserve evaluated collectively	-	2,081,962	2,081,962
Total	$ 385,660	$ 2,081,962	$ 2,467,622
Loans balance:			
Evaluated individually	$ 7,683,187	$ -	7,683,187
Evaluated collectively	-	136,840,441	136,840,441
Total	$ 7,683,187	$ 136,840,441	$ 144,523,628

Quality Indicators of the Commercial Loans Portfolio

In addition to reviewing the commercial portfolio concentration risk, the Credit Union implemented a process of evaluation of the quality of commercial credit. 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:

Without Exception – The debtor has adequate capital and the ability to repay the debt in the normal course of operations.

Follow-Up – The loan is protected at a collateral level in these moments but has the potential of deteriorating. The financial information of the debtor is not consistent or is under budget, presenting the possibility of short-term liquidity problems. Other typical features of this classification are lack of recent financial information, low capitalization or industry risks. The main source of repayment is still good, but there is a possibility to use the collateral or the help of a guarantor to repay the debt. Although this type of loan is up to date and it is understood that the recovery is not in doubt, frequency of payments could be affected.

Substandard – This type of loan is not adequately protected due to deterioration in the net capital of the debtor or of the collateral pledge. The debtor presents clear weaknesses in their financial condition which affects the recovery of the loan. It is likely that the Credit Union will not recover the whole loan balance. Loans classified in this category are consider as impair and do not accumulate interest, so the payments received are applied to the principal.

Doubtful – The loan has the deficiencies of those presented in the category of "Substandard". In addition, the collectability of part or the entire loan is highly improbable. The possibility of loss is extremely high, but there are some specific conditions that could be resolved in favor of the debtor and therefore strengthen the probability of recovery of the loan. The loan has not been charged to loss until there is a clearer view of the effect of the specific conditions listed above. These conditions could include a further injection of capital, new collateral, and refinance or liquidation proceedings. Loans classified in this category are consider impair and do not accumulate interest, so the payments received are applied to the principal.

Below is the portfolio of commercial loans classified according to their risk as of December 31, 2019 and 2018:

	Without Exception	Follow-Up	Substandard	Doubtful	Total
December 31, 2019					
Corporations	$ 5,508,755	$ 349,374	$ -	$ -	$ 5,858,129
Non-profit entities	1,972,219	-	-	-	1,972,219
Total commercial	$ 7,480,974	$ 349,374	$ -	$ -	$ 7,830,348
December 31, 2018					
Corporations	$ 5,664,226	$ 453,727	$ -	$ -	$ 6,117,953
Non-profit entities	1,565,234	-	-	-	1,565,234
Total commercial	$ 7,229,460	$ 453,727	$ -	$ -	$ 7,683,187

The Credit Union monitors the maturity of its commercial portfolio with the purpose of managing credit risk. Below are the categories of maturity of the commercial portfolio:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
December 31, 2019							
Corporations	$ 5,508,755	$ -	$ 4,152	$ 345,222	$ -	$ 349,374	$ 5,858,129
Non-profit entities	1,972,219	-	-	-	-	-	1,972,219
Total commercial	$ 7,480,974	$ -	$ 4,152	$ 345,222	$ -	$ 349,374	$ 7,830,348
December 31, 2018							
Corporations	$ 5,664,226	$ -	$ 249,144	$ 204,583	$ -	$ 453,727	$ 6,117,953
Non-profit entities	1,565,234	-	-	-	-	-	1,565,234
Total commercial	$ 7,229,460	$ -	$ 249,144	$ 204,583	$ -	$ 453,727	$ 7,683,187

Quality Indicators of the Consumer Loans Portfolio

The Credit Union has various types of consumer loans which have different credit risks. The delinquency, the empirical and the loan value-to-collateral are indicators of quality that the Credit Union monitors and uses in the evaluation of the allowance for uncollectible loans in its consumer loan portfolio.

The main factor in the evaluation of the allowance for uncollectible loans in the portfolio of consumer loans is the delinquency presented by such portfolio. According to the Regulation 8665 of November

20, 2015, the percentage method, assigns the risk of consumer product according to its maturity. Below are the categories of maturity of the portfolio of consumer:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
December 31, 2019							
Personal	$ 75,058,699	$ 352,958	$ 274,615	$ -	$ -	$ 534,050	$ 75,686,272
Collateral	7,540,725	1,300	-	-	-	-	7,542,025
Auto	29,483,746	158,754	51,465	14,015	-	111,205	29,707,980
Mortgages	37,281,023	662,610	326,242	1,161,434	-	2,068,048	39,431,309
Lines of credit	139,657	-	-	-	-	-	139,657
Credit cards	1,486,368	40,452	2,531	-	-	31,882	1,529,352
Other	874,420	13,330	12,844	-	-	-	900,594
Total consumer	$ 151,864,638	$ 1,229,404	$ 667,697	$ 1,175,449	$ -	$ 2,745,185	$ 154,937,189
December 31, 2018							
Personal	$ 66,850,501	$ 433,386	$ 327,236	$ 77,274	$ -	$ 688,339	$ 67,688,397
Collateral	6,771,401	890	-	-	-	-	6,772,291
Auto	19,805,506	302,613	34,515	-	-	90,415	20,142,634
Mortgages	38,557,003	186,831	907,460	897,093	-	1,977,267	40,548,387
Lines of credit	115,918	6,532	-	96,078	-	96,078	218,528
Credit cards	1,251,205	57,248	28,782	6,017	-	49,510	1,343,253
Other	125,460	1,425	66	-	-	66	126,951
Total consumer	$ 133,476,994	$ 988,925	$ 1,298,059	$ 1,076,462	$ -	$ 2,901,675	$ 136,840,441

Following we present the types of loans that compose the portfolio of consumer classified according to their empirical at the time of the granting:

	Distribution by credit scores				
	< 600	601-650	651-700	701 +	Total
December 31, 2019					
Personal	4,351,961	14,524,195	17,695,450	39,114,666	75,686,272
Collateral	433,666	1,447,315	1,763,325	3,897,719	7,542,025
Auto	1,708,209	5,700,961	6,945,726	15,353,084	29,707,980
Mortgages	2,267,300	7,566,858	9,219,040	20,378,101	39,431,299
Lines of credit	8,030	26,800	32,652	72,175	139,657
Credit cards	87,938	293,483	357,562	790,369	1,529,352
Other	51,784	172,824	210,559	465,427	900,594
Total consumer	$ 8,908,888	$ 29,732,436	$ 36,224,314	$ 80,071,541	$ 154,937,179
December 31, 2018					
Personal	3,892,083	12,989,403	15,825,547	34,981,364	67,688,397
Collateral	389,406	1,299,603	1,583,362	3,499,920	6,772,291
Auto	1,158,202	3,865,371	4,709,348	10,409,713	20,142,634
Mortgages	2,331,533	7,781,235	9,480,213	20,955,406	40,548,387
Lines of credit	12,565	41,936	51,092	112,935	218,528
Credit cards	77,237	257,770	314,053	694,193	1,343,253
Other	7,300	24,362	29,681	65,608	126,951
Total consumer	$ 7,868,326	$ 26,259,680	$ 31,993,296	$ 70,719,139	$ 136,840,441

The loan-to-value of the collateral is the proportion that compares the balance of the principal to the value of the collateral at the time of granting. Below is the distribution of the mortgage loan portfolio according to the proportion previously mentioned. In recent years, real estate markets in residential properties have experienced declines in their values.

The loan-to-value ratio of the collateral does not necessarily reflect the execution in the repayment of this but provides an indicator of the collateral value and exposure of the Credit Union. In case if the loan cannot be recovered, the loss that the Credit Union would assume should be limited to the excess of the net realizable value of the property compared to the loan balance.

	Loan-to-Value Classification				
	0-80%	80-90%	90-100%	>100%	Total
December 31, 2019					
First Mortgage	$ 28,784,855	$ 10,646,453	$ -	$ -	$ 39,431,308
Total	$ 28,784,855	$ 10,646,453	$ -	$ -	$ 39,431,308
December 31, 2018					
First Mortgage	$ 29,600,323	$ 10,948,064	$ -	$ -	$ 40,548,387
Total	$ 29,600,323	$ 10,948,064	$ -	$ -	$ 40,548,387

Impaired Loans

The following presents a summary of the portfolio of impaired loans as of December 31, 2019 and 2018:

	At the end of the year			For the year ended
	Unpaid Principal Balance	Recognized Investment	Specific Reserve	Recognized Interest Income
December 31, 2019				
Commercial:				
Corporations	$ 349,374	$ 419,249	$ 267,440	$ 6,030
Total commercial	$ 349,374	$ 419,249	$ 267,440	$ 6,030
Consumer:				
Personal	$ 776,546	$ 931,855	$ 960,384	$ 13,403
Auto	309,521	371,425	76,671	5,342
Mortgage	1,882,965	2,259,558	470,278	32,500
Lines of credit	-	-	-	-
Credit cards	99,203	119,044	8,889	1,712
Other	19,827	23,792	19,827	342
Total consumer	$ 3,088,062	$ 3,705,674	$ 1,536,049	$ 53,299
Total	$ 3,437,436	$ 4,124,923	$ 1,803,489	$ 59,329

	At the end of the year			For the year ended
	Unpaid Principal Balance	Recognized Investment	Specific Reserve	Recognized Interest Income
December 31, 2018				
Commercial:				
Corporations	$ 453,727	$ 544,472	$ 203,266	$ 7,831
Total commercial	$ 453,727	$ 544,472	$ 203,266	$ 7,831
Consumer:				
Personal	$ 838,887	$ 1,006,664	$ 495,418	$ 14,479
Auto	337,127	404,553	141,616	5,819
Mortgage	1,977,267	2,372,720	135,631	34,128
Lines of credit	102,610	123,132	-	1,771
Credit cards	92,047	110,456	26,163	1,589
Other	1,491	1,789	294	27
Total consumer	$ 3,349,429	$ 4,019,314	$ 799,122	$ 57,813
Total	$ 3,803,156	$ 4,563,786	$ 1,002,388	$ 65,644

The following presents a summary of the loans modified and classified as restructured and those loans restructured that became impaired:

	Restructured Loans			**Delinquent restructured loans**		
	Number of loans	Principal balance	Reserve required	Number of loans	Principal balance	Reserve required
December 31, 2019						
Consumer:						
Personal	175	$ 2,394,759	$ 718,428	4	$ 78,248	$ 23,475
Total Consumer	175	$ 2,394,759	$ 718,428	4	$ 78,248	$ 23,475
December 31, 2018						
Consumer:						
Personal	188	$ 2,637,708	$ 607,972	7	$ 127,192	$ 32,620
Total Consumer	188	$ 2,637,708	$ 607,972	7	$ 127,192	$ 32,620

The following is a summary of the type of concession granted to the restructured loans during the year ended December 31, 2019 and 2018:

	Type of concession				
	Interest rate	Maturity date	Principal reduction	Other	Total
December 31, 2019					
Consumer					
Personal	$ 2,155,283	$ -	$ -	$ 239,476	$ 2,394,759
Total consumer	$ 2,155,283	$ -	$ -	$ 239,476	$ 2,394,759
December 31, 2018					
Consumer					
Personal	$ 2,373,937	$ -	$ -	$ 263,771	$ 2,637,708
Total consumer	$ 2,373,937	$ -	$ -	$ 263,771	$ 2,637,708

8. INVESTMENTS IN COOPERATIVES ENTITIES

The investments in cooperative entities represent deposits made in cooperative entities in Puerto Rico. The investment is recognized at cost, plus dividends received on such investments. Investment in cooperative entities as of December 31, 2019 and 2018 consist of the following:

	2019	2018
Banco Cooperativo de Puerto Rico	$ 5,728,039	$ 5,429,390
Investment in COSSEC	2,096,851	2,096,851
Cooperativa de Seguros de Vida	2,159,875	2,159,875
Fondo de Inversión y Desarrollo Cooperativo (FIDECOOP)	374,661	364,066
Cooperativa de Seguros Múltiples de Puerto Rico	4,446,655	4,359,466
Investment in USICOOP	75,000	75,000
Cooperativa de Servicios Fúnebres	36,963	37,318
Liga de Cooperativas	1,560	1,560
	$ 14,919,604	$ 14,523,526

9. PROPERTY AND EQUIPMENT

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

	2019	2018
Buildings	$ 4,347,277	$ 2,891,303
Furniture & equipment	1,738,357	1,752,642
Programming	2,452,512	2,457,663
Improvements	3,426,910	3,428,244
Vehicles	44,549	44,549
	12,009,605	10,574,401
Less accumulated depreciation	(7,443,151)	(7,479,189)
	4,566,454	3,095,212
Land	2,457,094	2,689,448
	$ 7,023,548	$ 5,784,660

10. OTHER ASSETS

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

	2019	2018
Interest receivable on loans, certificates and others	$ 800,890	$ 881,505
Losses under special amortization (Law 220)	5,135,317	5,600,950
Prepaid COSSEC fee	227,120	225,418
Prepaid deposits and insurance	162,614	156,353
Repossessed properties and cars	2,370,348	2,239,219
Construction in progress	396,209	970,959
Other accounts receivable	264,304	127,661
	$ 9,356,802	$ 10,202,065

The movement of the losses under special amortization of the Credit Union at December 31, 2019 and 2018 was as follows (See Note 6):

	2018	**2018**
Beginning balance	$5,600,950	$4,953,034
Additions	196,940	656,689
Other	(102,573)	436,227
Amortization	(560,000)	(445,000)
Ending balance	$5,135,317	$5,600,950

Special Investment Sales

During the year ended December 31, 2019, the Credit Union had investments in debt instruments issued by ELA and classified as special investments, making a net loss on sale. The Credit Union increased the impairment as of December 31, 2019 in the amount of $196,940 as a net result of those sales of special investments that were recorded as additional losses under special amortization as allowed by Act No. 220. The Credit Union will continue to amortize the net loss attributable to the provision of special investments for a period not to exceed 15 years as permitted by Law No. 220 of October 15, 2015 (See Note 2).

The Credit Union signed an agreement with a New York law firm for the purpose of filing a complaint with the *Financial Industry Regulatory Authority* (FINRA) against the brokerage house that provided services to the Credit Union regarding the Puerto Rico bonds. The Credit Union had an additional recovery of $102,573 through this mechanism on losses recognized in Puerto Rico bonds, which it chose to recognize as a reduction in the balance of losses under special amortization.

During the year ended December 31, 2018, the Credit Union had investments in debt instruments issued by ELA and classified as special investments, making a net loss on sale of approximately $436,227. In addition, the Credit Union chose to increase the impairment in the amount of $656,689 related to an additional special investment provision sold subsequent to December 31, 2018 and where an additional loss was made, which was recorded as losses under special amortization under Act No. 220.

11. DEPOSITS AND CERTIFICATE OF DEPOSITS

The regular savings accounts earn interests that fluctuates between 0.05% y 0.36% computed daily and credited quarterly. Its policy of the Credit Union to allow savings withdrawals on any operating day. The interest rate in the certificates varies according to the amount and time negotiated. Saving balances maintained in the Christmas and summer savings plan are payable in November and June, respectively. Interest on these accounts fluctuates between 0.25% and 1.00%. Deposits consist of the following:

	2019	2018
Members' saving accounts	$ 118,136,937	$ 115,996,451
Certificate of deposits	26,223,552	22,932,217
Checking accounts	11,826,282	13,062,342
Xmas-Club	269,286	249,803
Vera-Coop	174,648	177,804
JuvenCoop	3,552,637	3,735,248
	$ 160,183,342	$ 156,153,865

The reconciliation with the statement of financial condition as of December 31, 2019 and 2018 is as follows:

	2019	2018
Deposits	$ 133,959,790	$ 133,221,648
Certificates of Deposits	26,223,552	22,932,217
	$ 160,183,342	$ 156,153,865

The following shows the maturity of the deposits and certificates of deposits in aggregated form for the following five years as of December 31, 2019:

Savings account without contract of maturity	$ 133,607,564
Maturity of less than one year	14,807,145
Maturity between one and three years	8,947,305
Maturity between three and five years	2,192,343
Maturity over five years	628,985
Total deposits	$ 160,183,342

12. LINE OF CREDIT

As of December 31, 2019, the Credit Union had a revolcing line of credit for operational capital and liquidity support with the Banco Cooperativo of Puerto Rico. The amount of credit granted to the Credit Union in this line of credit amounts to $1,500,000 and the interest rate is based in the prime rate determined from time to time by Citibank N.A. plus 1%. The revolving line of credit was extended without any collateral and has an expiration date April 30, 2020. As of December 31, 2019, the line of credit with Banco Cooperativo had a zero balance.

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of December 31, 2019, and 2018 the accounts payable and accumulated expenses were the following:

	2019	2018
Account payable and other accumulated expenses	$ 263,643	$ 277,958
Insurance and policies payable	290,362	214,530
Pension plan	300,000	240,000
Money orders and manager's checks	18,805	12,470
Vacation and bonus	243,808	187,313
Provisions	103,319	116,648
Outstandings checks payable	5,455,057	4,898,529
Other	691,527	784,486
	$ 7,366,521	$ 6,731,934

14. OTHER INCOME

The other income for the years ended December 31, 2019 and 2018 it consists of the following:

	2019	2018
Service charges	$ 651,227	$ 610,990
Service commissions	57,658	84,968
Credit cards fees	82,886	166,869
Mortgage commissions	69,314	52,465
Sponsorship	273,101	166,024
Dividends	386,110	256,499
Other income	823,571	707,912
Realized gain from sale of investment	9,965	36,748
	$ 2,353,832	$ 2,082,475

15. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the years ended December 31, 2019 and 2018 it is composed of the following:

	2019	2018
Salaries, bonus and vacations	$ 2,070,297	$ 1,998,347
Payroll contributions	176,947	194,149
Professional services	1,683,174	1,717,186
Insurance:		
COSSEC fee	452,539	382,980
Funeral	96,765	87,650
Generals	230,887	242,505
Depreciation and amortization	481,435	618,278
Goodwill amortization	-	9,025
Utility	388,258	359,574
Uniforms	32,804.00	-
Education	157,107	146,682
Executive expenses	39,433	32,214
Medical plan	365,949	328,039
Repair and maintenance	135,159	217,787
Annual Meeting	75,000	75,000
ATH maintenance	201,920	202,710
Office materials	77,998	138,615
Pension plan contribution	183,633	200,520
Mastercard maintenance	151,755	120,301
Banking fees	98,916	104,082
Representation expenses	36,720	20,514
Haulage	66,474	67,530
Credit investigation	41,635	36,478
Rent	226,763	163,456
Activities and 50 anniversary	50,062	48,096
Travel and diets	145,771	136,488
Donations	19,487	19,224
Cooperative entities fee	37,062	33,315
Advertising and Promotiokns	440,498	350,162
Sales and Use Tax	97,805	109,146
Repossessed properties expense	565,409	560,662
Other expenses grouped	91,976	171,814
	$ 8,919,638	$ 8,892,529

16. COLLECTIVE LIFE INSURANCE OF LOANS

The members who comply with the eligibility requirements have the right to participate in a loan insurance. This insurance will pay up to a maximum of fifty thousand dollars ($50,000) in the coverage of personal and auto loans. The insurance is maintained with the Cooperativa de Seguros de Vida. The member contributes a 2% of the total loans to cover the premium cost and the rest is contributed by the Credit Union.

17. MEDICAL PLAN

The Credit Union has a medical plan for qualified employees, where the Institution contributes monthly per employee, in accordance with the applicable coverage selected. The medical plan expense for the years ended December 31, 2019 and 2018 was $364,949 and $328,039, respectively.

18. PROVISION FOR COOPERATIVE EDUCATION

The Credit Union is obligated by Act 255, as amended, to annually separate for educational purposes and integration of the cooperative movement in Puerto Rico, no less than one tenth of one percent (0.1%) of the total volume of business. Within three (3) months following the close of its operations in each economic year, said credit unions will determine the amount resulting from the calculation, up to a maximum of four thousand ($4,000). All credit unions whose total volume of business exceeds four million dollars ($4,000,000) annually are obliged to contribute an additional amount of five percent (5%) of its annual net surplus up to a maximum of six thousand dollars ($6,000). The Credit Union pay the corresponding expense to the provision for cooperative education as of December 31, 2019 and 2018.

19. RETIREMENT PLAN

The Credit Union has a defined contributions plan for all the regular employees. The plan provides benefits for normal, early and emergency retirement. The plan expense for the years ended December 31, 2019 and 2018 was $200,520 and $180,037, respectively. The minimum annual contribution of the Credit Union, including administration cost, is calculated according to the salary of each covered employee. The Credit Union will contribute four percent (4%) of the compensation of each employee who qualifies for this plan. This amount may vary as established in Section 1165 (e) of the Puerto Rico's Internal Revenue Code.

20. CONTINGENCIES, UNCERNTAINTIES AND COMMITMENTS

Uncertainty Economic Situation of Puerto Rico

During the month of September 2017, hurricanes Irma and Maria caused catastrophic damage throughout Puerto Rico (Commonwealth). After the passage of the hurricanes, all of Puerto Rico was left without electricity and other basic utilities and infrastructure services (such as water, communications, ports, and other transport networks).

Even before the hurricanes, the Commonwealth already experienced a severe economic and liquidity fiscal crisis due to many years of budget deficits, a prolonged economic recession, a high unemployment, a population in decline and high levels of debt and pension obligations. This has also contributed to downgrading the credit ratings of general obligation bonds and other bonds related to the lower levels of a speculative investment. Currently, the Commonwealth and several of its agencies are restructuring their debts through Titles III and VI of the Federal Law PROMESA and have not fulfilled their obligations to pay the principal and interest on their debt instruments with credit unions. Since its creation, the Board of Supervision, Administration and Economic Stability of Puerto Rico (Board) has worked with ELA to carry out its responsibilities under PROMESA, to help the Commonwealth achieve a fiscal balance, return to the capital markets and restore the economic growth of Puerto Rico. The planned changes in the fiscal plans requested by the Supervisory Board and its agencies are ambitious and require unprecedented levels of effort. Due to the above, there is an uncertainty that the Commonwealth and the Board appointed by PROMESA by the Federal Government will succeed in achieving balanced budgets through debt restructuring and multi-year fiscal plans. In addition, the Commonwealth announced that it will need substantial federal assistance in the form of emergency liquidity programs to respond to its cash flow deficiencies and rebuild critical infrastructure after the hurricanes.

In addition, 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 that affect Puerto Rico, its consumers, and businesses. The effects of the prolonged recession are reflected in the limited demand for loans, an increase in the rate of foreclosures and moratorium on loans granted in Puerto Rico. While PROMESA provides a process to address the fiscal crisis of the Commonwealth, the duration and complexity of Title III procedures for the Commonwealth and several of its agencies, the adjustment measures required by fiscal plans and the impact of Hurricanes Irma and María, suggests a risk of significant additional economic contraction. In addition, the measures adopted to deal with the fiscal crisis and those that will have to be taken soon will probably affect many of our individual and business members, which could cause credit losses that negatively affect consumer confidence. This in turn translates into reductions in consumer expenses that can also adversely impact our interest income and other income. If global or local economic conditions worsen or the Government of Puerto Rico and the Supervisory Board can not properly manage post-hurricane recovery efforts and pre-existing fiscal crisis, in addition to continuing to provide essential services, the adverse effects could continue or worsen in a way that we cannot predict, even consummated an orderly restructuring of the debt obligations of the Government of Puerto Rico.

This could have a material impact on the economic activity of Puerto Rico where the Credit Union does business. The accompanying financial statements do not include adjustments related to the effect of the uncertainty related to the economic conditions of the Commonwealth and its effect on the Credit Union.

Purchase of Participation in Loan Portfolio

During the year ended December 31, 2018, the Credit Union acquired a participation in an auto loan portfolio for approximately $2 million. The management of auto loans will be conducted by the selling entities, which will receive and retain a servicing fee of .25% of the average monthly balance of the loan portfolio. In addition, the Credit Union paid a commission of approximately $61,000 over the balance of the loans at the purchase date. Loans subject to these transactions were purchased without recourse.

Hurricanes Irma and Maria and claims to the Insurance Company

On September 6 and September 20, 2017, hurricanes Irma and María, respectively, devastated Puerto Rico. The hurricanes caused unprecedented damage to residents of Puerto Rico in the areas of housing, infrastructure, communications and others. The response to this catastrophe by the United States and federal agencies has become one of the largest and most complex disaster recovery efforts in the history of the United States. The Credit Union had property damage, incurred income losses due to business interruption and incurred extraordinary expenses. The Credit Union submitted a report along with documentation related to the Insurance Company that investigated and assessed the claim. The amount of recovery that the Insurance Company finally certified in excess of the corresponding deductibles was approximately $221,000 and was collected during the year ended December 31, 2018. This amount is presented as other income for the year ended December 31, 2018.

Agreement for Maintenance of Payment Order Accounts

The Credit Union maintains as part of other services to their members, the current accounts or payment order, share draft. The Credit Union will be responsible for all the risk involved in the operation of payment order accounts, including, but not limited to, customer acceptance, account opening, acceptance of overdraft deposits, setting withholding on deposited checks, customer credit recording, and all inherent risks to this type of service. The administration cost of this account will be paid by the Credit Union. The Credit Union will set the charge for its customer services. The Credit Union maintains an agreement with Banco Cooperativo de Puerto Rico to represent it in the exchange or refund of checks, in accordance with the regulations of Puerto Rico Clearing House Association.

Operational Leases

The Credit Union maintains various lease agreements for the facilities used for offices of Barranquitas, Orocovis and Ponce. The contracts are renewable at the option of the Credit Union for a term of five (5) additional years to the maturity dates, which vary until 2027. The following are the annual future rental payments for the next five (5) years for these contracts; $129,000 for the year ending December 31, 2020; $108,600 for the year ending December 31, 2021, $108,600 for the year ending December 31, 2022 and $108,600 for the year ending December 31, 2023 and $96,600 for the year ending December 31, 2024. The rental expense for the years ended December 31, 2019 and 2018 was $226,763 and $154,982, respectively.

Lawsuits and Legal Claims

The Credit Union also maintains several claims against third parties, mainly for claims of money collection and asset repossession, as part of its normal and current operations as a financial institution. In addition, the Credit Union faces several other lawsuits and claims for alleged damages, breach of contract, among others. The claims, according to the consultation of legal advisors, should not have a significant impact on the financial statements as a whole.

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methodology and Assumptions

The following methods and assumptions were used to estimate the fair value of the financial instruments:

- The book value of cash and financial liabilities approximate their fair value due to their short-term nature.

- The book value of cash equivalents and savings certificates was estimated by discounting the expected cash flows to its maturities using estimated market discounts rates.

- The fair value of loans was estimated by discounting the expected cash flows to its maturities, using estimated market discount rates that reflect the credit risk and inherent interest to the loan. The discount rate was adjusted to consider the necessary expansion based on the new originations that contemplate the risk of liquidity, interest and credit. The discount rates applied were based on the market rate for classes similar as of December 31, 2019 (Level 3). The estimated value of loans, advances and other accounts receivable is net of specific provision for impairment.

- The estimated fair value of the investments is based on the market prices when available (Level 1), market price quotations for similar investments (Level 2), or the market price of the last transaction for the instrument in an active market (Level 2), or proportional net assets of associates, as appropriate.

- The value of investments in cooperative entities represents the original costs of the investment plus the capitalized dividends, less withdrawals or returns. Managements understands that the fair value of these investments should approximate to the book value for to its particularities.

- Repossessed cars and properties are registered at the lowest cost (loan's book value) or fair value minus any estimated cost to dispose the property. Fair values are derived from appraisals of the properties. If the property is recently acquired , it is recorded in the books based on its market value less the cost to sell at the acquisition date. The Credit Union classified these properties as Level 3 within the fair value hierarchy.

Financial Assets Recognized at Fair Value on a Recurring Basis

As of December 31, 2019, and 2018, the Credit Union had marketable securities available for sale and special investments for which it is required to measure the fair value recurrently:

Type of Investment	2019 Level 1	Level 2	Level 3	Total
Investment in negotiable securities	$ -	$ 19,271,742	$ -	$ 19,271,742
Special investments	-	-	-	-
	$ -	$ 19,271,742	$ -	$ 19,271,742

Type of Investment	2018 Level 1	Level 2	Level 3	Total
Investment in negotiable securities	$ -	$ 26,196,095	$ -	$ 26,196,095
Special investments	-	2,750,791	-	2,750,791
	$ -	$ 28,946,886	$ -	$ 28,946,886

Financial Assets Recognized at Fair Value on a Non-recurring Basis

The Credit Union may be required, from time to time, to measure certain assets at their fair value on a non-current basis in accordance with generally accepted accounting principles (GAAP). These fair value adjustments usually result from the application of the accounting of the lower of cost or market or impairment in value of individual assets decreases. The assessment methodology used for these fair value adjustments is describe above. The level of inputs used to determine each adjustment and the book value of the asset related as of December 31, 2019 and 2018 are summarized as follows:

	2019				
	Book	Fair Value			
Type of Investment	Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Repossessed properties and cars	$ 2,370,348	$ -	$ -	$ 2,370,348	$ 2,370,348

The change in the fair value of the repossessed autos and properties, which was determined using Level 3 Inputs, as of December 31, 2019 and 2018 are presented as follows:

Balance, at the beginning of the year	$ 2,239,219
Acquisition of repossessed properties	959,004
Sales and retirements during the year	(827,875)
Balance, at the end of the year	$ 2,370,348

Estimated Fair Value

As of December 31, 2019, and 2018, the book value and estimated fair value of financial instruments were as follows:

	2019		2018	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Cash and cash equivalent	$ 17,333,873	$ 17,333,873	$ 17,441,728	$ 17,441,728
Certificate of deposits, due more than three months	5,750,000	5,750,000	4,620,611	4,620,611
Loan receivable, net of allowance	160,147,957	152,059,592	142,659,904	132,189,137
Investment in securities	19,271,742	19,271,742	26,196,095	26,196,093
Special investments	-	-	2,827,997	2,750,791
Shares in cooperative entities, without COSSEC	12,822,753	12,389,214	12,426,675	12,003,731
Repossessed properties and cars	2,370,348	2,370,348	2,239,219	2,239,219
Other assets - Loss under special amortization	5,135,317	-	5,600,950	-
	$ 222,831,990	$ 209,174,769	$ 214,013,179	$ 197,441,310
Financial liabilities:				
Deposit accounts	$ 133,959,790	$ 133,959,790	$ 133,221,648	$ 133,221,648
Certificate of deposits	26,223,552	26,223,552	22,932,217	22,932,217
Shares	51,420,467	51,420,467	48,227,915	48,227,915
	$ 211,603,809	$ 211,603,809	$ 204,381,780	$ 204,381,780

The estimated fair value is determined at a moment in time and is not relevant in predicting future cash flow or earnings. The estimated fair value is based on subjective assumptions and they contain a significant degree of uncertainty. These do not reflect the effect of possible income tax or other expenses that may be incurred in the disposition of the financial instruments.

22. RISK FINANCIAL INSTRUMENTS NOT RECOGNIZED IN THE STATEMENT OF FINANCIAL CONDITION

In the normal course of operations, the Credit Union uses certain risk instruments that are not recognized in the statement of financial condition to meet the financing needs of the members. These financial instruments include commitments to extend credit and credit cards. These instruments have various levels, elements of credit risk in excess of the amount recognized in the statement of financial condition.

The nominal or contract amounts of those instruments, not included in the statement of financial condition, are indicative of the activities of the credit union in any instrument.

The Credit Union uses credit terms similar to those used for financial instruments included in the statement of financial condition when executing the commitments and conditional credit guarantees. The commitments to extend credit are contractual obligations to lend funds to members on a predetermined interest rate for a specified period. Since many of the commitments lapse without performing any disbursement, the total balance of the commitments does not necessarily represent future disbursement required.

The Credit Union evaluates separately the credit condition of its members before granting credit. The management determines through the evaluation of the applicant’s credit, the amount of collateral to be obtained as a condition of the credit requested. The amount of commitment to extend credit as of December 31, 2019 and 2018:

	2019	2018
Credit cards	$ 2,342,773	$ 2,261,152
Line of credit	$ 590,325	$ 490,453

23. TRANSACTIONS BETWEEN RELATED PARTIES

Practically all the employees and members from the governing bodies of the Credit Union have savings accounts, make loans and enjoy the services provided by the institution. The transactions terms in these accounts (interest charged and paid) are like those accounts for the members in general. The total of loans between related parties as December 31, 2019 and 2018 was $2,312,782 and $2,121,209, respectively.

24. SUBSEQUENT EVENTS

The Credit Union adopted the ASC 855 relating to Subsequent Events. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the statement of financial condition, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the statement of financial condition during which the Credit Union's management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which the Credit Union should recognize and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the statement of financial condition. According to the ASC 855, the Credit Union evaluated subsequent events up to March 9, 2020, when these financial statements were ready to be emitted. The Credit Union's management understands that no material event occurred subsequently to December 31, 2019 that requires registration or need additional disclosure in the financial statements.

1. Informative Letter 2020-01, Authorization for the Adoption of the Moratorium Program for those affected by earthquake events

During the month of January 2020, Puerto Rico suffered a series of strong earthquakes, which caused significant damage to individual and family homes, as well as small businesses, mainly concentrated in various municipalities in the southwestern part of the island. These earthquakes have been followed by hundreds of aftershocks. COSSEC, as regulator of credit unions, issued an informative letter 2020-01 to offer a voluntary moratorium program to members of the municipalities identified in the circular letter, including the branch of the Credit Union in that geographic area. The moratorium program should not exceed 90 days, but each case can be evaluated individually. The moratorium program also includes mortgage and commercial loans whose collateral suffered damages and was financed by the Credit Union. As of the date of these financial statements, the Credit Union is working diligently with its members who reside or work in the affected areas and who suffered losses as a result of these earthquakes to offer the program.

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