

2012

Annual Report
Reporte Anual



Servicio con calor humano



PROGRAM

1. Registration 7:30 A.M. - 11:30 A.M.

2. Business Agenda 9:00 A.M. - 11:30 A.M.

a. Call to Order

b. Ascertain Quorum

c. Presentation of Head Table and Special Guests

d. Invocation

e. USA and Commonwealth Anthems

f. Administrative Announcements

g. Approval of Minutes of the Last Annual Meeting

h. President's Report

i. Treasurer's Report

j. Credit Committee's Report

k. Supervisory Committee's Report

l. BAIA's Special Presentation

m. Nominations Committee's Report

n. Elections

o. Old Business

p. New Business

q. Adjournment

3. Lunch 11:30 A.M. - 1:00 P.M.

4. Social Activity 12:00 Noon - 6:00 P.M.

WELCOME
TO THE SIXTIFIRST ANNUAL MEETING OF
CARIBE FEDERAL CREDIT UNION

HELD THIS 9th DAY OF JUNE 2013
AT THE EL SAN JUAN RESORT & CASINO
CAROLINA, PUERTO RICO

In the occasion of our 61st Annual Meeting we take special pleasure in greeting you as we meet again, to fulfill our legal regulations as a federal credit union and to share, as co-workers, in the examination of our yearly, financial and service report. Paramount among our responsibilities at this time, is the election of a Board of Directors, which will direct the activities of the credit union in accordance with the law.

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

Thank you for joining us in celebrating Caribe Federal Credit Union's 62nd Anniversary.

Board of Directors
Caribe Federal Credit Union

Services Offered by CFCU

Regular Share Account
Share Certificate
Share Draft/Checking Account
Christmas Club Account
Cari Kid Share Saving's Account
Commercial Account

Personal Unsecured Loans
Personal Fully Secured Loan
Line of Credit
Business Loans
New Auto Loan
Used Auto Loan
Auto Transfer Loan
Auto Balloon
Boat Loan
Motorcycle Loan
Emergency Loan
IRA Loan
College Fund Loan
MasterCard
Student MasterCard
Conventional Mortgage Loan
Personal Mortgage Loan
Home Equity Loan
Land Loan
FHA Mortgage Loan
Reverse Mortgage Loan
Photovoltaic Equipments Loan

Check Cashing
Money Orders
Traveler's Checks
Marbetes
Occasion Checks
Teller Station
Auto Bank
Direct Deposit
Wire Transfers
Hacienda Stamps
International ATM Card
Telecaribe
Caribe Online
Caribe Bill Pay-e
Share Branching

Supplementary Plans

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

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

Mission

To satisfy our members financial needs.

Vision

Be the best option in financial products and services.

Know Your Officials

Board of Directors

Mr. Rafael A. Martínez	President	Retired, ATF
Mr. Juan M. Masini	First Vice President	Lawyer
Mrs. Celia Ruíz	Second Vice President	Retired, USDE
Mr. Porfirio Ríos	Treasurer	Retired, US Trustee
Mr. Alexis E. Agostini	Secretary	Retired, Cons. Farm Services
Mr. Heriberto J. Martínez	Member at Large	Retired, Cons. Farm Services
Mr. Iván O. Puig	Member at Large	Retired, USPS Engineer
Mrs. Nidza Hernández	Member at Large	Retired, USACE
Mr. Emilio M. Colón	Member at Large	Retired, SBA
Mr. Wilfred Benítez	Member at Large	HUD
Mr. Juan O. Rodríguez	Member at Large	

Supervisory Committee

Mr. Ramón A. Negrón	President	Ex-BOD ICPR FCU
Mr. Manuel Casellas	Member	Ex-BOD SJFCU
Mr. José Marrero	Member	CPA and Lawyer
Mr. Angel Pérez	Member	Lawyer
Mr. Iván O. Puig	Member	Retired. USPS

Credit Committee

Mr. Juan M. Masini	Chairperson	Lawyer
Mrs. Celia Ruiz	Member	Retired, USDE
Mrs. Heidi Miranda	Member	Lawyer
Mrs. Melanie P. Rodriguez	Member	Lawyer

Know Our Staff

Administrative

Jorge M. Vadell	General Manager
Carmen Ortiz	Compliance Officer
Dánely Pérez	Marketing Officer
Minerva Pérez	Administrative Assistant BOD
Elizabeth Espinet	Confidential Secretary

Branch Operations

Jorge R. Menéndez	Operations Manager
Jennifer Avilés	Branch Services Supervisor
Verónica Caldera	Branch Services Supervisor
Jorge Inle	Quality Control Specialist
Vangie Hernaiz	Credit Card Officer

David Robinson	Security and Maintenance Specialist
Carmen L. Díaz	General Office Clerk
María Charriez	General Office Clerk
Jannette Centeno	General Office Clerk
David de Jesús	Messenger

Main Branch

Mark Flores	Branch Manager
Alma Gómez	Assistant Branch Manager
Karina Torres	Sales and Services Executive
Lilliam Ginés	Sales and Services Executive
Ricardo T. Gil	Sales and Services Executive
Zayra Maldonado	Sales and Services Executive
Gladys Morales	Sales and Services Executive
Steven Bernúdez	Sales and Services Executive
Edith Lorenzo	Sales and Services Executive
Jelissa Torres	Sales and Services Executive
Luis Prieto	Sales and Services Executive
Primarie Olivera	Receptionist
Marisol Ríos	Receptionist
Ana E. González	Head Teller
Stephanie Amadeo	Teller
Sullyannette Irizarry	Teller
Marimar Aponte	Teller
Christopher Acevedo	Teller
José Ojeda	Teller
Jessica Clara	Teller

Virtual Branch

Jenny Brito	Supervisor
Milagros Vélez	Sales and Services Executive
Michelle Burgos	Sales and Services Executive
Lillian Pérez	Sales and Services Executive
Lisa V. Rodríguez	Sales and Services Executive
Melissa Vázquez	Sales and Services Executive
Yamilee Osorio	Sales and Services Executive
Yolimar Vera	Sales and Services Executive
Shirley Colón	Sales and Services Executive

Finance

Demarys H. Crespo	Finance Manager
Linnette Martínez	General Accountant
Vanessa Ferrero	Accountant
Mayanin Cuadrado	Accountant
Alvin Hernández	Accountant

Know Our Staff

Loan

José E. Febres
Henry Lozada
Emma Y. Márquez
Nereida Rivera
Rubelisse Quiñones

Loan Manager
Commercial Loan Officer
Mortgage Processing Specialist
Mortgage Processing Specialist
Loan Clerk

Collections

Sol M. Morales
Daisy I. Nieves
Santa Aquino
Julio Ostalaza

Collection Manager
Collection Officer
Collection Officer
Collection Officer

ITS

Angel R. Escudero
Georgie Mera
Ronald Cancel
Kelvin Príncipe

IT Manager
Network Administrator
Senior Programmer
Programmer II

BAIA

Victor Rosario
Lourdes Campos

Acting General Manager
Administrative Assistant



MINUTES OF THE 60th ANNUAL MEETING
JUNE 3, 2012

The 60th Annual Meeting of Caribe Federal Credit Union (CFCU) was held at the El San Juan Hotel & Casino, in Isla Verde P.R., on Sunday, June 3, 2012.

QUORUM DETERMINATION AND CALL TO ORDER

Secretary Alexis E. Agostini certified that quorum was established with more than 215 members present. Chairman Rafael A. Martinez called the meeting to order at 9:00 A.M.

Chairman of the Board, Rafael A. Martinez welcomed everyone and expressed his appreciation to all the members present for attending and participating in the work of the annual meeting. He wished everyone a pleasant experience at the 60th annual meeting and celebration of CFCU's 61th Anniversary. The Chairman presented the members of the Board of Directors, the Supervisory Committee Chairmen, the General Manager and the special guests.

Mr. Jorge Darío Ortíz delivered the invocation and the dedication of the 60th Annual Meeting. The Anthems of the Commonwealth of Puerto Rico and the United States of America were played.

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

ADMINISTRATIVE ANNOUNCEMENTS

President of the Activities Committee and Second Vice-president of the Board of Directors, Celia A. Ruíz presented the administrative announcements concerning the annual meeting and the social activity to all the members present, followed by a raffle for the "early bird" attendees.

MINUTES:

The Chairman presented the June 5, 2011 Annual Meeting Minutes for consideration by the members. Since no comments or changes were presented, the minutes were unanimously approved by the members.

CHAIRMAN'S REPORT

The Chairman expressed that as President of the Board of Directors of the best credit union in Puerto Rico, it was his honor to present a general overview of CFCU's situation. He stressed in general terms because other speakers were going to provide greater detailed information during their respective presentations, i.e., the Treasurer and the Credit Committee Chairmen.

He indicated that the Board of Directors are volunteer positions elected by the members of the credit union to make sure that CFCU is operated properly, safeguard its assets, maintain its solvency and solid financial position and secure the continuity of the credit union, among other functions. The Directors, Committee Members, Management and employees are committed to working towards the best interest of our members in order to help them achieve their financial goals; that is the primary reason for existence of the Caribe credit union.

Martinez stated that 2011 was a difficult year, full of great challenges. He addressed the well-known fact that Puerto Rico continued going through the worst and prolonged recession since the great depression of 1930's. The economic down turn in Puerto Rico began in 2006 and many economists have categorized this recessionary period as a true depression. Some economists say that there have been signs of a slight recovery, a growth of less than one percent (1%). The situation is still not good but not as bad as it was. The economic outlook was further complicated by a high unemployment rate, which government sources estimate at about 15%, the devaluation of the real estate market (value of properties) and the fact that Financial Institutions are very cautious in approving loans; Consequently, all the indications are that we will continue to have a difficult economy in the near future.

Certainly the negative economic situation has affected all the sectors, including or especially the financial institutions, and CFCU has not been the exception. However, while some financial institutions have closed their doors and others have merged with other institutions to survive, Caribe is solid, really solid financially! CFCU has the largest membership base (30%), total assets (42%) largest loan portfolio, highest capital and the highest return on assets ratio when compared to the 12 federal credit unions organized locally in Puerto Rico. CFCU also has the lowest percentage of delinquency (12%) when compared to the credit unions of Puerto Rico and the United States. CFCU's healthy financial position is possible thanks to the quality of our (CFCU) members.

The solidness of CFCU for 2011, as well as in previous years, was due to the dedication and efforts of Caribe's team, composed of the Board of Directors, Management, Committee Members, and all its employees, made and implemented measures to deal with and minimize the negative impact on Caribe's operations, economic solvency, and our ability to continue to offer the products and services to our members at the lowest possible cost.

Among the measures taken were:

- The review and modification of the Strategic and Business Plan.
- Improved Products and Services.
- Incorporated flexibility in the loan process and requirements.
- Stress Delinquency reduction.
- Improved debt collections.
- Improved Marketing and Communications such as the creation of "Caribe Te Informa".
- Offered continuous Customer Service trainings to employees.
- Maintained Operational costs low.
- Revision of the Policies and Procedures in accordance to NCUA regulations.

During the Chairman's PowerPoint presentation, he provided details of CFCU's financial performance during 2011 and some of the future goals for 2012. He also informed that CFCU will continue to improve service to members. He pointed out that one of the most important services that were currently available is Share Branching. This service makes it possible for members to transact business with Caribe through the branch of another credit union within Puerto Rico and while traveling outside of the island. A list of the associated credit union branches can be found on our web site.

The Chairman expressed, with pride that CFCU is in solid financial position in spite of the economic crisis. He mentioned that the NCUA Examiners expressed, after completing their annual examination of CFCU's operation for 2011, that our credit union was in excellent shape and encouraged us to continue doing what we were doing as CFCU was a model that other credit unions on the island and in the United States could emulate. Martinez also informed that the External Auditor's review for 2011 had reflected very positive results.

During the presentation, the Chairman presented several recognition awards to CFCU's staff members for performance and special achievements as expressed below.

EMPLOYEES RECOGNITION PROGRAM

Loan Manager José E. Febres was recognized for his 30 years of service to CFCU. A performance recognition award was given to several employees who exceeded their 2011 evaluations. A special recognition award was given to Collections Manager Sol M. Morales and Operations Manager Jorge R. Menéndez for their outstanding contribution to the reduction of charged off loans and the delinquency.

TREASURER'S REPORT

Treasurer Porfirio Ríos welcomed everyone present. He began his presentation with CFCU's financial situation for year 2011, including a comparison of the year 2010 financial situation. The financial statements were consolidated with CFCU's subsidiary Business Consortium Alliance and BCA's subsidiary Business Alliance Insurance Agency, which have been audited by Zayas, Morazzani & Co. CPA Auditors firm.

The Treasurer indicated that the financial statements have been available to members for their review since April 26, 2012 and expressed that year 2011 continued to be a period of a serious economic recession and no doubt, one of the most difficult periods, affecting every financial institution in Puerto Rico and the United States.

The Federal Reserve maintained low interest rates during the year in an effort to help the financial industries. The cost of living continued to increase as well as the bankruptcies and delinquencies in all banks and credit unions. Nonetheless, CFCU continued to use strategies and initiatives to grow and increase collection efforts.

The Treasurer informed on CFCU's financial condition for year ending on December 31, 2011, as follows:

TOTAL ASSETS

CFCU's total assets were \$226 million, an increase of \$8 million when compared to year 2010.

ASSET COMPOSITION

The total assets consist of Cash and Equivalents of \$72 million on loans and \$145 on other assets. The Liabilities and Membership savings amount to \$191 million, an increase of \$6 million. The Reserves amounts to \$35.1 million, an increase of \$1.9 thousand. The Statement of Income shows the amount of income on loan interest and investment for \$10.1 million. The dividend paid over shares and shares certificates amounts to \$3.2 million. The operational expenses amounted to \$5.1 million in year 2011, when compared to 2010 there is a decrease of \$200 thousand. The Treasurer presented the distribution of income as follows: 29.95% for dividends, 47.23% for operational expenses, 1.81% for a provision for charged off accounts and 17.15% was net income due to the fact that 3.87% was imposed by NCUA for the corporate stabilization plan.

Finally, after the deduction of \$418,886 for NCUA's stabilization plan, NACUSIF, the net income for year 2011 was \$1.9 million.

The Treasurer concluded his report expressing that in spite of the economic crisis that Puerto Rico is enduring, CFCU continues to be solid thanks to all the members that use our products and services and the dedication of our Board of Directors, Management and employees.

CREDIT COMMITTEE REPORT

Credit Committee Chairman Juan M. Masini-Soler greeted and welcomed the members of the Annual Meeting. Mr. Masini-Soler introduced the members of the Credit Committee and the Loan Division, and recognized their outstanding performance throughout the year. Thereafter, he presented the statistics on the loan approvals and rejections for year 2011. He stated that a total of 5,746 loan applications were considered, of which 3,166 were favorably approved. The total amount of loans approved during 2011 had the following breakdown: \$2,872,693 on secured loans, \$1,039,350 Partially Secured Loans, \$9,980,250 Unsecured Personal Loans, \$969,100 Mastercard, \$40,746,038 Auto Loans, \$45,404 Boats & Motorcycle Loans, \$695,112 Commercial Loans and \$1,766,290 on Mortgage Loans for a grand total of loans approved \$58,114,237

Mr. Masini-Soler informed that the Credit Committee and CFCU's Management are constantly monitoring the changes in the market in order to provide members with the best products at the lowest cost and encouraged all members to take advantage of CFCU's excellent loan offerings. He commented that the revenue generated in loan interest is CFCU's main source of income. Therefore, when a member applies for a loan they are contributing to CFCU's income besides receiving a good treatment by CFCU's staff employees and an excellent product. He commented that as everyone knows 2011 was a year of great challenges due to the economic

crisis and in particular Puerto Rico's situation. CFCU had to make adjustments to the Loan Policy in order to stay competitive. He thanked the Board of Directors, the Loan officers, Managers and the Credit Committee members for their support and quoted "remember that a good credit will open the door to a world of possibilities and CFCU is 100% committed to offering the best products and services and if by any reason you have clouds of economic situations in your horizons, do not hesitate to explain your problems to the Credit Committee who will, in the best spirit try to help you as reasonably as possible". Mr. Masini concluded his report wishing everyone a wonderful evening and said that the best of CFCU is still to come.

SUPERVISORY COMMITTEE REPORT

Supervisory Committee and Board Member Iván O. Puig presented the annual Supervisory Committee's 2011 report. He presented the members of the committee and informed that it was the Supervisory Committee's responsibility to review the decisions and policies of Caribe Federal Credit Union (CFCU), and make recommendations and suggestions for the consideration of the Board of Directors. The Supervisory Committee's essential goals are: Assure compliance with National Credit Union Administration (NCUA) requirements and guidelines, assure that management's financial reporting objectives have been met; and that management practices and procedures safeguard the member's assets. Suggestions of the CFSC are made in the best interest and solid financial projections of CFCU.

To accomplish these goals, the committee gathers and evaluates the necessary information to ensure compliance with applicable accounting principles, laws and regulations. An annual audit of the financial statements performed by an external auditor and the NCUA Examiner Report is used toward the safeguard of member's assets.

Director Puig informed that the CPA Firm—Zayas, Morazzani & Co. conducted an external audit and examined the operations of the Caribe Federal Credit Union (CFCU) for the years ending in December 31, 2010 and 2011. They concluded that the financial statements present fairly, in all material respects, the financial position of CFCU and the results of the operations and its cash flows in conformity with generally accepted accounting principles (gaap) in the United States of America.

The Supervisory Committee selected the Firm CMR & CO, CPA, a certified public accountant firm as CFCU's internal auditors to provide services. They made various internal control audits, upon request of the Supervisory Committee in accordance with NCUA Regulations. Some of these internal audits were to review the risk to CFCU in relation to the Business Alliance Insurance Agency (BAIA) for which recommendations and suggestions were presented to the Board of Directors along with suggestions from the Supervisory Committee to continue the improvement and increase the cooperation of joint actions between CFCU and BAIA. Also, the Company Compliance Consulting Advisors performed Bank Secrecy Act (BSA) training as required.

In compliance with the responsibility of the Supervisory Committee to review the decisions and policies of CFCU, suggestions were submitted to the Board of Directors. Director Puig concluded his report and thanked everyone present in the annual meeting.

BUSINESS ALLIANCE INSURANCE AGENCY

Business Alliance Insurance Agency's (BAIA), Chairman Emilio M. Colón informed on all the benefits that the federal employees may have if they enroll in the life insurance program that will be presented by President of American National Insurance Company, Ronald Price. He also presented information on the benefits of various insurance products offered by BAIA available to CFCU members.

Thereafter, Chairman Colón introduced Senior Vice President of the American National Life Insurance Company (ANICO). Mr. Price explained in detail the advantages of this life insurance program for federal employees using a power point presentation.

He expressed that most Americans are aware that they don't have enough life insurance to protect their families when they need it most. Mr. Price said that ANICO was in a member relationship marketing program with BAIA and CFCU to reach out to members with the insurance advice they want and need. He said that the benefits of enrolling in this product is that they offer payroll allotment to federal employees, that the agency offices in Puerto Rico exist since 1971 and that they offer simplified life insurance up to \$250,000. He encouraged the federal employees to enroll in the life insurance program through BAIA. He concluded his report informing that later on in the annual meeting he would speak more about the life insurance program.

Thereafter, Mr. Price made an exercise of anecdotes followed with questions and answers to the members present in the annual meeting.

CONSTRUCTION COMMITTEE

Director Nidza Hernández gave an overview of all the work that the Construction Committee performed throughout the year.

NOMINATIONS COMMITTEE REPORT

The President of the Nominations Committee, Juan O. Rodríguez informed on the election process as follows: Option A2 - In-person elections; nominating committee and nominations by petition. The new election process states that the nominating committee files its nominations with the secretary of the credit union at least 90 days prior to the annual meeting, and the secretary notifies in writing all members eligible to vote at least 75 days prior to the annual meeting; and that nominations for vacancies may also be made by petition, said document should be accompanied with the signature of 1% of the active members with a minimum of 20 and a maximum of 500. The written notice must indicate that the election will not be conducted by ballot and there will be no nominations from the floor when there is only one nominee for each position to be filled. A brief statement of qualifications and biographical data in a form

approved by the board of directors will be included for each nominee submitted by the nominating committee with the written notice to all eligible members. Each nominee by petition must submit a similar statement of qualifications and biographical data with the petition. The written notice must state the closing date for receiving nominations by petition. In all cases, the period for receiving nominations by petition must extend at least 30 days from the date that the petition requirement and the list of nominating committee's nominees are mailed to all members. To be effective, a signed certificate must accompany such nominations from the nominee or nominees stating that they are agreeable to nomination and will serve if elected to office. Such nominations must be filed with the secretary of the Board of Directors at least 40 days prior to the annual meeting and the secretary will ensure that nominations by petition along with those of the nominating committee are posted in a conspicuous place in each credit union office at least 35 days prior to the annual meeting.

Mr. Juan O. Rodríguez presented the four candidates for the Board of Directors for years 2012 to 2015; Mrs. Nidza Hernández, Mr. Heriberto J. Martínez, Mr. Juan M. Masini and Mr. Iván O. Puig. He also informed that candidate Juan F. Aguirre withdrew his nomination prior to the annual meeting and that since there were four candidates for four vacancies, that no voting process was necessary.

DECLARATION OF NOMINEES

Director Rodríguez declared that Mrs. Nidza Hernández, Mr. Heriberto J. Martínez, Mr. Juan M. Masini and Mr. Iván O. Puig were the candidates elected to serve as members of the Board of Directors for years 2012 to 2015.

NEW BUSINESS

Chairman Rafael A. Martínez opened the session for new business.

Member Felix De Jesús expressed his concern on the terrible conditions of the O'Neill Street when approaching CFCU's building in Hato Rey. Chairman Martínez expressed that although it was the responsibility of the PR transportation department that CFCU will make the necessary due diligence to make sure that the street be repaired.

Member Nancy Fontán expressed her appreciation to the gifts that were handed out to the children during the registration which was a suggestion that she presented in last year's annual meeting.

Member Eric Cordero presented a motion to adjourn the meeting. The motion was seconded and approved without opposition.

ADJOURNMENT

There being no further business discuss, the meeting was adjourned at 11:40AM.

Raffles, lunch and a social activity followed.

CARIBE FEDERAL CREDIT UNION
Consolidated Financial Statements

December 2012 and 2011
(With Independent Auditors' Report Thereon)

ZAYAS, MORAZZANI & Co.
CERTIFIED PUBLIC ACCOUNTANTS

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ZAYAS, MORAZZANI & CO.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 366225
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Independent Auditors' Report

The Board of Directors
Caribe Federal Credit Union:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Caribe Federal Credit Union, which comprise the statements of financial condition as of December 31, 2012 and 2011, and the related statements of income, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

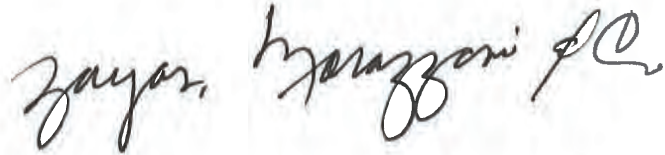
Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caribe Federal Credit Union, as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

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

March 23, 2013



Stamp. No. E58357 of the Puerto Rico Society of Certified Public Accountants was affixed to original.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Financial Condition
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Cash and cash equivalents (note 1)	\$ 70,043,323	44,267,131
Certificates of deposits (note 2)	2,502,014	3,198,071
Investments available for sale (note 3)	18,913,575	24,161,600
Loans to members, net (notes 1, 4 and 20)	150,704,187	145,316,647
Accrued interest receivable (notes 5 and 20)	621,960	561,984
Insurance claim receivable	4,254	-
Accounts receivable, net	42,737	38,286
Prepaid expenses	178,835	155,518
Property and equipment, net (notes 1 and 6)	5,940,542	6,163,831
NCUSIF deposit (note 14)	1,914,215	1,675,545
Art Collections (note 1)	77,619	77,619
Other assets (note 7)	195,755	231,783
	<u>251,139,016</u>	<u>225,848,015</u>
<u>Liabilities and Members' Equity</u>		
<u>Liabilities</u>		
Member's shares accounts (note 8)	211,359,265	187,439,596
Accruals and other liabilities (note 9)	1,178,573	1,402,713
Accounts payable to auto dealers (note 17)	1,563,472	1,877,306
	<u>214,101,310</u>	<u>190,719,615</u>
Total liabilities		
Commitments and contingencies (notes 9, 14, 15, 16, 17, 18, 19 and 22)		
<u>Equity</u>		
Members' equity:		
Appropriated regular reserve (note 12)	3,811,746	3,811,746
Unappropriated earnings	33,115,310	31,134,696
Accumulated other comprehensive income (note 3)	110,650	181,958
	<u>37,037,706</u>	<u>35,128,400</u>
Total members' equity		
Total liabilities and members' equity	<u>\$ 251,139,016</u>	<u>225,848,015</u>

See independent auditors' report and accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Income
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Interest income:		
Interest and fees on loans	\$ 8,971,354	9,030,727
Interest on investments	<u>1,150,748</u>	<u>1,102,111</u>
	10,122,102	10,132,838
Interest expense:		
Dividends on members' shares accounts (note 8)	<u>2,797,356</u>	<u>3,244,767</u>
Net interest income	7,324,746	6,888,071
Provision for loan losses (notes 1 and 4)	<u>(625,118)</u>	<u>(195,960)</u>
Net interest income after provision for loan losses	<u>6,699,628</u>	<u>6,692,111</u>
Non-interest income (note 10)	<u>806,521</u>	<u>701,044</u>
Non-interest expenses:		
Compensation and benefits	2,579,916	2,424,271
Occupancy and related (note 11)	1,286,402	1,237,736
Other (note 11)	<u>1,477,367</u>	<u>1,454,841</u>
Total non-interest expenses	<u>5,343,685</u>	<u>5,116,848</u>
Income before regulatory charges	2,162,464	2,276,307
TCCUSF premium assessment (note 15)	<u>(181,850)</u>	<u>(418,886)</u>
Net income	<u>\$ 1,980,614</u>	<u>1,857,421</u>

See independent auditors' report and accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Members' Equity
Years ended December 31, 2012 and 2011

	<u>Appropriated Statutory</u>	<u>Unappropriated</u>	<u>Other Comprehensive Income</u>	<u>Total</u>
Balances, December 31, 2010	\$ <u>3,811,746</u>	<u>29,277,275</u>	<u>70,761</u>	<u>33,159,782</u>
Comprehensive Income:				
Net income	-	1,857,421	-	1,857,421
Other comprehensive income:				
Net change in unrealized loss on available for sale securities	<u>-</u>	<u>-</u>	<u>111,197</u>	<u>111,197</u>
Total comprehensive income	<u>-</u>	<u>1,857,421</u>	<u>111,197</u>	<u>1,968,618</u>
Balance, December 31, 2011	\$ <u>3,811,746</u>	<u>31,134,696</u>	<u>181,958</u>	<u>35,128,400</u>
Comprehensive Income:				
Net income	-	1,980,614	-	1,980,614
Other comprehensive income:				
Net change in unrealized gain on available for sale securities	<u>-</u>	<u>-</u>	<u>(71,308)</u>	<u>(71,308)</u>
Total comprehensive income	<u>-</u>	<u>1,980,614</u>	<u>(71,308)</u>	<u>1,909,306</u>
Balance, December 31, 2012	\$ <u>3,811,746</u>	<u>33,115,310</u>	<u>110,650</u>	<u>37,037,706</u>

See independent auditors' report and
accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net income	\$ 1,980,614	1,857,421
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	401,237	401,355
Loss on disposition of repossessed assets	2,855	149
Loss on disposition of property and equipment	-	11,337
Provision for possible loan losses	625,118	195,960
Dividends credited on members' saving (shares) accounts	2,812,999	3,271,711
Premium amortization and discount accretion (net)	2,061	27,725
Changes in assets and liabilities:		
(Increase)/decrease on accrued interest receivable	(59,976)	139,940
(Increase)/decrease in insurance claim receivable	(4,254)	20,865
Increase in accounts receivable, net	(4,451)	(25,032)
Increase in prepaid expenses	(23,317)	(3,976)
Decrease in other assets	33,173	296,556
(Decrease)/increase in accruals and other liabilities	(224,140)	152,462
Decrease in accounts payable to auto dealers	(313,834)	(1,671,513)
	3,247,471	2,817,539
Total adjustments		
Net cash provided by operating activities	\$ 5,228,085	4,674,960

(Continued)

See independent auditors' report and accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidated Statements of Cash Flows
Years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from investing activities:		
Cash proceeds from maturities, disposition and return on principal over investments	\$ 14,383,217	40,489,780
Acquisition of Certificates of Deposit	(752,504)	(750,000)
Acquisition of investment securities available for sale	(7,760,000)	(13,000,000)
Net (increase) in loans from members	(6,012,658)	(11,783,971)
Acquisition of property and equipment	(162,322)	(216,865)
Acquisition of construction materials	(15,626)	-
Deposit in NCUSIF	(238,670)	237
	(558,563)	14,739,181
Cash flows from financing activities:		
Net increase in savings (shares) accounts	21,106,670	4,227,673
	21,106,670	4,227,673
Net increase/(decrease) in cash and cash equivalents	25,776,192	23,641,814
Cash and cash equivalents at beginning of year	44,267,131	20,625,317
Cash and cash equivalents at end of year	\$ 70,043,323	44,267,131

Supplemental Disclosures of Cash Flow Information

During the years ended December 31, 2012 and 2011, unrealized gain/(loss) on securities available for sale were recognized for \$(71,308) and \$111,197, respectively, representing a non-cash item.

See independent auditors' report and accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies

Organization and Nature of Operations

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

Business Consortium Alliance, Inc. (BCA), is a wholly-owned subsidiary of Caribe Federal Credit Union (parent Company). It is a credit union service organization (“CUSO”) under the United States Credit Union Act. It was engaged in the development of its lines of business and in providing services to the Credit Union. Effective October 31, 2010, BCA ceased its active operations.

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

Principles of Consolidation

The consolidated financial statements include the accounts of Caribe Federal Credit Union and Business Consortium Alliance, Inc. (BCA) (as consolidated with BAIA). All significant intercompany accounts and transactions have been eliminated.

Basis of Presentation

The accompanying financial statements are presented under accounting principles generally accepted in the United States of America.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

- 2 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Concentrations of Credit Risk

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

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

Reclassifications

In the accompanying financial statements, certain 2011 figures were reclassified to conform to the 2012 presentation.

Significant Accounting Policies

Caribe Federal Credit Union has adopted the following significant accounting policies:

Investments

Held to maturity - Securities for which management has the intent and the ability to hold to maturity. These investments are reported at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to interest income on investments.

Available for sale - Investment securities that could be sold at any time in response to economic and strategic factors. These securities are reported at fair market value. Unrealized gains and losses on securities available for sale are recognized as a direct increase or decrease in other comprehensive income.

Investments are made in accordance with the credit union's policies, which incorporate the regulations of NCUA, hence, they are principally in federally sponsored and guaranteed instruments. Gains or losses on disposition are based on the net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Premiums and discounts are amortized or accreted using the effective interest method. Interest income is recorded on an accrual basis.

(Continued)

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Loans to Members, Allowance for Loan Losses and Loan Origination Fees

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

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

Loan Origination Fees

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

Accounts Receivable

Accounts receivable are stated at their net realizable value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line method over the estimated useful life of the respective assets.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

- 4 -

(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Impairment of Long-lived Assets

The Credit Union periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No indications of impairment are evident at December 2012 and 2011.

Art Collections

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

Cash and Cash Equivalents

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

The composition of cash and cash equivalents follows:

	<u>2012</u>	<u>2011</u>
Petty cash	\$ 400	400
Change fund	459,918	508,624
Regular and EFT account	69,333,008	41,506,457
Certificate of Deposit	249,997	250,000
Obligations for U.S. Government, States and political subdivisions	<u>-</u>	<u>2,001,650</u>
Total cash and cash equivalents	<u>\$ 70,043,323</u>	<u>44,267,131</u>

Members' Shares Accounts

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

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Federal and State Income Taxes

Caribe Federal Credit Union is exempt, by statute, from federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(2) Certificates of Deposits

At December 31, 2012, the Credit Union maintains certificates of deposits in denominations of \$250,000 or higher. The scheduled maturities are as follows:

Due in one year or less	\$ <u>2,502,014</u>
-------------------------	---------------------

(3) Investments

Investments Available for Sale:

As of December 2012 and 2011, the cost and fair values of investments securities available for sale are:

	December 31, 2012		
	Amortized Cost	Unrealized Gain	Market Value
Obligations for U.S. Government, States and Political Subdivisions	\$ <u>18,802,925</u>	<u>110,650</u>	<u>18,913,575</u>
	December 31, 2011		
	Amortized Cost	Unrealized Gain	Market Value
Obligations for U.S. Government, States and Political Subdivisions	\$ <u>23,979,642</u>	<u>181,958</u>	<u>24,161,600</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(3) Investments, Continued

The amortized cost and estimated fair value of investment securities, at December 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
<u>Amounts maturing in:</u>		
Due in one year or less	\$ 6,004,466	6,028,400
Due after one year through five years	12,798,459	12,885,175
	\$ 18,802,925	18,913,575

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Credit Union to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Comprehensive Income

As of December 2012 and 2011, other comprehensive income consists of unrealized gain on investment in securities classified as available for sale as follows:

Balance as of December 31, 2011	\$ 181,958
Change during the year	(71,308)
Balance as of December 31, 2012	\$ 110,650

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(4) Loans to Members

The composition of loans to members is as follows:

	2012	2011
Unsecured	\$ 25,941,644	22,021,580
Mortgage	20,821,815	21,449,610
Automobile	76,074,907	76,426,132
Share secured loans	5,177,255	4,674,907
Lines of credit	666,023	737,257
Master Card	13,993,619	14,059,024
Commercial loans	10,070,985	7,779,558
	152,746,248	147,148,068
Less: Net unamortized		
deferred origination fees	(519,796)	(526,152)
Allowance for loan losses	(1,522,265)	(1,305,269)
Subtotal	(2,042,061)	(1,831,421)
Total loans to members, net	\$ 150,704,187	145,316,647

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(4) Loans to Members, Continued

The following table summarizes the aging of the loans to members receivable portfolio:

Age Analysis of Loan to Members Receivables by Category As of December 31, 2012					
		0-60	61-89	90 days and Non-accruing	Total
Consumer:					
Personal	\$	25,915,261	2,256	24,127	25,941,644
Mortgage		20,638,942	-	182,873	20,821,815
Auto		76,064,241	10,666	-	76,074,907
Secured		5,177,255	-	-	5,177,255
Credit Cards		13,958,761	21,490	13,368	13,993,619
Lines of Credit		666,023	-	-	666,023
Total consumer loans		142,420,483	34,412	220,368	142,675,263
Commercial		9,683,257	-	387,728	10,070,985
Total loans to members	\$	152,103,740	34,412	608,096	152,746,248

Age Analysis of Loan to Members Receivables by Category As of December 31, 2011					
		0-60	61-89	90 days and Non-accruing	Total
Consumer:					
Personal	\$	21,894,788	69,893	56,899	22,021,580
Mortgage		21,384,801	-	64,809	21,449,610
Auto		76,395,711	30,421	-	76,426,132
Secured		4,641,628	23,107	10,172	4,674,907
Credit Cards		14,016,096	38,142	4,786	14,059,024
Lines of Credit		727,258	-	9,999	737,257
Total consumer loans		139,060,282	161,563	146,665	139,368,510
Commercial		7,779,558	-	-	7,779,558
Total loans to members	\$	146,839,840	161,563	146,665	147,148,068

(Continued)

(4) Loans to Members, Continued

Non-Accruing Loans

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

Loans to members in which the accrual of interest has been discontinued or reduced amounted to \$608,096 and \$146,665 at December 2012 and 2011, respectively. If interest on those loans had been accrued, such income would have approximated \$46,500 and \$15,000, respectively.

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Credit Union uses a disciplined methodology to establish the allowance for loan losses each quarter but not less than 1% of the loan portfolio. To determine the total allowance for loan losses, management estimates the provision needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a collectively basis. The allowance for loan losses consists of amounts applicable to: (i) consumer loans (personal, auto, mortgage, line of credit and credit card) and (ii) commercial loans portfolios.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, member behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses.

The Credit Union's allowance for loan losses is sensitive to individually evaluated loans, economic conditions and delinquency trends. Individual loans are evaluated based on each situation by experienced collection officers.

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

(Continued)

(4) Loans to Members, Continued

Loan Charge-Offs

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

- The borrower, including any co-maker or cosigner on the loan, has filed for bankruptcy protection.
- On the death of the debtor, there appears to be little hope that there are sufficient assets available from the estate or from insurance to recover the debt.
- On liquidation of the collateral, a deficiency balance exists and the borrower(s) has indicated that no further payments are forthcoming.
- The debt has been assigned to a third-party collector and no payments have been made within the past three months.
- The loan is 180 or 360 days delinquent and no monthly payments are being made.
- Reliable information has been received that the loan is uncollectible.
- The member has disappeared and, despite the best efforts of the collections department, the Credit Union has been unable to make contact with the debtor for 180 days.

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

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(4) Loans to Members, Continued

A summary of the changes in the allowance for loan losses is as follows:

	2012	2011
Balance, beginning of year	\$ 1,305,269	1,850,555
Provision charged to operations	625,118	195,960
Loans charged-off	(804,174)	(1,241,249)
Recoveries	396,052	500,003
Balance, end of year	\$ 1,522,265	1,305,269

The following table presents by portfolio segment, the changes in the allowance for loan losses:

	For the Year Ended December 31, 2012		
	Consumer	Commercial	Totals
Allowance for Loan Losses:			
Beginning balance	\$ 1,256,842	48,427	1,305,269
Provision	(126,727)	751,845	625,118
Charge-offs	(804,174)	-	(804,174)
Recoveries	396,052	-	396,052
Ending balance	721,993	800,272	1,522,265
Ending balance: individually evaluated for impairment	132,935	800,275	933,210
Ending balance: collectively evaluated for impairment	589,058	(3)	589,055
Total	\$ 721,993	800,272	1,522,265

	For the Year Ended December 31, 2011		
	Consumer	Commercial	Totals
Allowance for Loan Losses:			
Beginning balance	\$ 1,791,076	59,479	1,850,555
Provision	207,015	(11,055)	195,960
Charge-offs	(1,241,249)	-	(1,241,249)
Recoveries	500,000	3	500,003
Ending balance	1,256,842	48,427	1,305,269
Ending balance: individually evaluated for impairment	285,522	38,785	324,307
Ending balance: collectively evaluated for impairment	971,320	9,642	980,962
Total	\$ 1,256,842	48,427	1,305,269

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(4) Loans to Members, Continued

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

	Impaired Loans by Category For the Year Ended December 31, 2012		Impaired Loans by Category For the Year Ended December 31, 2011	
	Unpaid Principal of Impaired Loans (Cases)	Specific Associated Allowance for the Impaired Loan (Cases)	Unpaid Principal of Impaired Loans (Cases)	Specific Associated Allowance for the Impaired Loan (Cases)
Consumer:				
Personal	\$ 321,815	51,261	677,357	177,360
Mortgage	541,623	56,044	485,527	43,235
Auto	10,666	2,666	30,421	12,768
Credit Cards	34,857	22,964	49,637	42,160
Lines of Credit	-	-	9,999	9,999
Total consumer	<u>908,961</u>	<u>132,935</u>	<u>1,252,941</u>	<u>285,522</u>
Commercial	<u>1,755,102</u>	<u>800,275</u>	<u>387,858</u>	<u>38,785</u>
Total	<u>\$ 2,664,063</u>	<u>933,210</u>	<u>1,640,799</u>	<u>324,307</u>

Loans to members secured by collateral consist of \$112,144,962 and \$110,326,964 for 2012 and 2011, respectively. The remaining balance represents loans partially secured and unsecured. The collections from the majority of the members' loans are by direct deposit through payroll deduction.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(4) Loans to Members, Continued

Related Parties

Certain officers, directors, and employees of the Credit Union, had loans with the Credit Union during 2012 and 2011. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection. Total loans outstanding to these related parties at December 31, 2012 and 2011, amounted to \$2,490,844 and \$2,074,300, respectively.

	<u>Related Parties</u>
Total loans	<u>198</u>
Balance, beginning of year	\$ 2,074,300
New loans	940,076
Payments of loans	<u>(523,532)</u>
Balance, end of year	<u><u>\$ 2,490,844</u></u>

Certain employees, officers and directors of the Credit Union also have share accounts. Such accounts were at the ordinary course of business at normal interest rates.

	<u>Related Parties Share Accounts December 31, 2012</u>
Share drafts	\$ 74,119
Regular shares	2,012,015
Share certificates	590,057
Other	<u>153,278</u>
	<u><u>\$ 2,829,469</u></u>

Credit Quality Information

The Credit Union has established policies to evaluate application for loans using, among other information, credit scores available through service providers. As of December 31, 2012 approximately 85% of the loan portfolio corresponds to loans classified at the upper level of the internal rating.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(4) Loans to Members, Continued

Troubled Debt Restructurings (TDR)

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

The following table presents the restructured loans by category:

For the Year Ended December 31, 2012						
	Restructured loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Personal	40	\$ 295,432	29,543	-	\$ -	-
Mortgage	3	476,813	56,044	1	118,063	37,000
Total consumer loans	43	772,245	85,587	1	118,063	37,000
Commercial	1	251,447	9,359	-	-	-
Total	44	\$ 1,023,692	94,946	1	\$ 118,063	37,000
For the Year Ended December 31, 2011						
	Restructured loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Personal	49	\$ 429,248	41,081	1	\$ 18,443	9,221
Mortgage	3	420,719	10,831	-	-	-
Total consumer loans	52	849,967	51,912	1	18,443	9,221
Commercial	-	-	-	-	-	-
Total	52	\$ 849,967	51,912	1	\$ 18,443	9,221

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(5) Accrued Interest Receivable

As of December 2012 and 2011, the following are the components of accrued interest receivable:

	2012	2011
Accrued interests on loans	\$ 486,800	474,030
Accrued interests on investments	135,160	87,954
Total accrued interest receivable	\$ 621,960	561,984

(6) Property and Equipment, Net

Net property and equipment is summarized as follows:

	2012	2011
Land	\$ 2,386,495	2,386,495
Building	4,702,710	4,697,742
Construction in progress	15,625	-
Furniture and fixtures	762,952	693,786
Office equipment, principally computer system	2,674,640	2,586,451
Leasehold improvements	160,513	160,513
	10,702,935	10,524,987
Accumulated depreciation and amortization	(4,762,393)	(4,361,156)
	\$ 5,940,542	6,163,831

Depreciation and amortization expense amounted to \$401,237 and \$401,355 for 2012 and 2011, respectively.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(7) Other Assets

As of December 2012 and 2011, the following are the components of other assets:

	2012	2011
Deposits for the acquisition of land	\$ -	100,000
Deposit in Banco Cooperativo de Puerto Rico	85,934	78,864
Deposits for the acquisition of property	75,000	-
Others	34,821	52,919
	\$ 195,755	231,783

(8) Members' Shares Accounts

Members' shares accounts are summarized as follows:

	Weighted-Average Rate at <u>December 31, 2012</u>		2012	2011
Share draft	0.15%	\$	10,039,424	9,574,012
Regular shares	1.24%		145,936,705	116,786,967
Share certificates				
0.0% - 2.00%			40,374,331	41,492,280
2.1% - 3.00%			10,694,130	9,521,349
3.1% - 4.00%			3,804,077	3,827,931
4.1% - 5.00%			510,598	1,151,457
5.1% - 5.83%			-	5,085,600
			55,383,136	61,078,617
Total shares accounts		\$	211,359,265	187,439,596

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(8) Members' Shares Accounts, Continued

As of December 2012 and 2011 the NCUA insured the Credit Union shares members' accounts to at least \$250,000. The aggregate amount of members' shares accounts over \$250,000 were \$16,151,255 and \$16,139,790, respectively. As of December 2012 and 2011, the aggregate amount of members' insured shares accounts, including escrows were \$195,347,929 and \$171,299,806, respectively.

At December 31, 2012, scheduled maturities of share certificates are as follows:

	Year Ending December 31					Total
	2013	2014	2015	2016	2017	
0.0% - 2.00%	\$ 34,561,887	3,285,757	2,233,091	293,596	-	40,374,331
2.1% - 3.00%	954,179	493,503	1,694,583	3,702,976	3,848,889	10,694,130
3.1% - 4.00%	510,628	2,682,185	569,264	42,000	-	3,804,077
4.1% - 5.00%	452,000	58,598	-	-	-	510,598
Total	\$ <u>36,478,694</u>	<u>6,520,043</u>	<u>4,496,938</u>	<u>4,038,572</u>	<u>3,848,889</u>	<u>55,383,136</u>

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

	2012	2011
Share savings	\$ 1,739,667	1,722,962
Share drafts	16,006	15,976
Share certificates	1,041,683	1,505,829
	\$ <u>2,797,356</u>	<u>3,244,767</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(9) Accruals and Other Liabilities

The composition of accruals and other liabilities is as follows:

	<u>2012</u>	<u>2011</u>
Dividends payable	\$ 65,439	81,082
Accrued payroll and related	151,462	140,429
Annual members' meeting	100,000	100,000
Accounts payable - trade	37,307	71,495
Accounts payable - ATM	70,892	287,274
Escrow accounts	150,613	139,946
Other accruals	602,860	582,487
	<u>\$ 1,178,573</u>	<u>1,402,713</u>

(10) Non-Interest Income

Non-interest income for the years ended December 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
ATM card fees and charges	\$ 205,868	235,201
Master card fees and charges	78,059	54,897
Other fees and charges	328,604	280,598
Sponsorships and other	51,980	25,556
Annual meeting	12,345	13,040
Net Non-interest income from CFCU	<u>676,856</u>	<u>609,292</u>
Non-interest income from BCA	129,665	91,752
	<u>\$ 806,521</u>	<u>701,044</u>

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(11) Non-Interest Expenses by Category

For the years ended on December 2012 and 2011, the non-interest expenses by category are as follow:

	<u>2012</u>	<u>2011</u>
Compensation and benefits	\$ 2,579,916	2,424,271
Occupancy and related:		
Depreciation and amortization (note 6)	401,236	401,355
Occupancy and utilities	240,761	219,512
Communications	198,708	201,491
Insurance	192,426	172,636
Rent (note 22)	117,856	118,613
Repair and maintenance	95,926	84,772
Security	39,489	39,357
	<u>\$ 1,286,402</u>	<u>1,237,736</u>
Other operating expenses:		
Professional services and contracted services	\$ 240,464	252,480
Advertising and promotion	217,657	181,070
Software support	158,128	176,856
Loan servicing and collection	146,703	150,755
Annual meeting	143,104	143,839
Monthly statements	103,398	110,069
Bank service charges	62,796	65,394
Directors' meetings and seminars	53,300	61,090
Federal operating	50,935	49,594
Office supplies	44,136	48,799
Insurance commission and fees	50,382	52,157
Educational expenses	30,449	37,519
Travel and conferences	19,175	21,883
Foreclosure expense	243	18,710
Employees activities	16,582	18,234
Loss on disposition of property and equipment	2,855	11,486
Dues and subscriptions	11,544	8,840
Other miscellaneous	79,593	36,956
Other operating losses	45,923	9,110
	<u>\$ 1,477,367</u>	<u>1,454,841</u>

(Continued)

(12) Members' Equity

Caribe Federal Credit Union is required by regulation to maintain a statutory reserve. This reserve, which represents a regulatory restriction of retained earnings, is not available for the payment of dividends. The statutory reserve consists of \$3,811,746 for 2012 and 2011.

(13) Deferred Compensation Plan

The employees of Caribe Federal Credit Union participate in a group pension plan through contributions to a life annuity accumulation contract administered by an insurance company. The plan was effective on October 1, 1993. Caribe Federal Credit Union matches the participant's contribution up to a 5% of the employee's compensation. All participants contribute at least 3% of their total gross compensation. In no event will the participants' annual deposit exceed 10% of the gross compensation or \$13,000.

Only full-time employees are eligible to enter the plan and must have attained eighteen (18) years old and completed twelve months of service. The normal retirement date is the first day of the month after the participants' 62nd birthday and after completing twenty (20) years of service.

The plan also provides for early retirement. A participant may elect to retire at any time after attaining fifty-five (55) years old and completing seven (7) years of service.

Vesting is accumulated after the second year on the plan for a period of five years at 20% per year.

At termination of employment, the vested portion of a participant's account will be paid following the next annual benefit payment date.

During the years ended December 2012 and 2011, Caribe Federal Credit Union contributed \$72,035 and \$65,605, respectively, to the pension plan.

(14) NCUSIF Deposit

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

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(15) NCUSIF and TCCUSF Premium Assessments

NCUA Board authorized the billing and collection of certain premiums (NCUSIF-National Credit Union Share Insurance Fund and TCCUSF-Temporary Corporate Credit Union Stabilization Fund) assessments, using a percentage charge over insured shares. During 2012 and 2011, the charge rates were:

	2012	2011
NCUSIF charge rate	0.00%	0.00%
TCCUSF charge rate	0.095%	0.25%

(16) Subsidiaries

As stated in note 1, these consolidated financial statements, include the accounts of Caribe Federal Credit Union, and its subsidiaries, Business Consortium Alliance, Inc. and Business Alliance Insurance Agency, Inc.

Effective October 31, 2010 BCA ceased its active operations. Management and the Board of Directors of the Company (BCA) and its subsidiary are evaluating future plans. The accompanying consolidated financial statements do not include any adjustments that might result from these uncertainty.

The accompanying schedules A and B summarize the participation of CFCU and BCA (as consolidated with BAIA) in the consolidated financial statements of CFCU as of and for the year ended December 31, 2012.

(17) Loan Commitments

At December 31, 2012, Caribe Federal Credit Union had outstanding commitments with its members for unused lines-of-credit and credit cards that are not reflected in the accompanying financial statements as follows:

Line-of-credits	\$ 281,016
Credit cards	16,051,864
	\$ 16,332,880

In addition, the Credit Union had pending to deliver certain payments to auto dealers subject to the presentation of required documents. As of December 2012 and 2011 payments amounted to \$1,563,472 and \$1,877,306, respectively, and are recorded as accounts payable to dealers in the accompanying financial statements.

(Continued)

(17) Loan Commitments, Continued

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

Caribe Federal Credit Union's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. Caribe Federal Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

Unless noted otherwise, Caribe Federal Credit Union does not require collateral or other security to support financial instruments with credit risk.

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

(18) Line of Credit

Caribe Federal Credit Union has a line of credit facility with financial institutions. As of December 2012 and 2011 there are not outstanding balances in the subject line of credit. With certain exceptions, substantially all the assets of the Credit Union serve as collateral for the line of credit facility. The unused amount is \$30,000,000 as of December 2012 and 2011. Interest is charged when applicable at prime rate.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements

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(19) Litigation

In the normal course of businesses, the Credit Union is involved in litigation. Management, after consultation with its legal counsel firm, understands that the effect of any outstanding litigation will not be significant for the financial statements.

(20) Fair Values of Financial Instruments

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

- Level 1 asset and liability fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2 asset and liability fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 assets and liabilities are financial instruments whose value is calculated by the use of pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(20) Fair Values of Financial Instruments, Continued

The estimated fair values of the Credit Union's financial instruments, none of which are held for trading purposes, are as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 70,043,323	70,043,323	44,267,131	44,267,131
Certificates of deposits	2,502,014	2,510,229	3,198,071	3,223,152
Investment securities	18,913,575	18,913,575	24,161,600	24,161,600
Loans receivable (gross)	152,226,452	152,226,452	146,621,916	146,621,916
Less: allowance for loan losses	(1,522,265)	(1,522,265)	(1,305,269)	(1,305,269)
Accrued interest receivable	621,960	621,960	561,984	561,984
	\$ 242,785,059	242,793,274	217,505,433	217,530,514
Financial liabilities				
Members' shares accounts	\$ 211,359,265	211,359,265	187,439,596	187,439,596
Off-Balance-Sheet Financial Instruments				
Commitments to extend credit	\$ 16,332,880	16,332,880	15,873,872	15,873,872

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

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

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

Cash and Cash Equivalents

The carrying amount approximates fair value due to the short-term nature of these instruments.

(Continued)

(20) Fair Values of Financial Instruments, Continued

Certificates of Deposit

For long-term certificates of deposit, fair value has been determined discounting the principal and interest to be received at rates currently offered by other financial institutions for certificates with similar terms and characteristics.

Investment Securities

Fair values have been determined using quoted market prices for all investment securities.

Loan Receivables

The fair value of the loan receivables approximates the carrying amount in the financial statements.

Accrued Interest Receivable

The fair value of the accrued interest receivable approximates the carrying amount in the financial statements.

Members' Shares Accounts

- Regular Shares and Share Drafts Accounts -The fair value of members' regular shares and share drafts having no fixed maturity is the amount payable on demand at the reporting date.
- Share Certificates -The fair value of fixed maturity members' share certificates is estimated using the rates currently offered for deposits with similar remaining maturities.

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(20) Fair Values of Financial Instruments, Continued

Commitments to Extend Credit

The fair value of commitments to extend credit was determined using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest and the committed rates.

Fair Value of Financial Instruments Measured on a Recurring Basis

Fair values of assets and liabilities measured on a recurring basis at December 2012 and 2011 are as follows:

		Fair Value Measurement at Reporting Date Using:			
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
		Fair Value			
<u>December 31, 2012</u>					
Available-for-sale securities	\$	18,913,575	18,913,575	-	-
<u>December 31, 2011</u>					
Available-for-sale securities	\$	24,161,600	24,161,600	-	-

(Continued)

CARIBE FEDERAL CREDIT UNION
Notes to Consolidated Financial Statements
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(21) Regulatory Capital

The Credit Union is subject to: (i) a regulatory net worth to total assets ratio and to (ii) a Risk Based Net-Worth (RBNW) ratio requirement, as administered by the NCUA (as defined in the regulations). Failure to meet any of these two ratios can initiate certain mandatory – and possibly additional discretionary – actions by the regulator that, if undertaken, could have a direct material effect on the Credit Union’s financial statements.

Net Worth to Total Assets Ratio

As of December 2012 and 2011, the Credit Union’s net worth to total assets ratio is categorized as well capitalized. To be categorized as well capitalized, the Credit Union must maintain a minimum net worth ratio of 7% as defined under the regulatory framework for prompt corrective action provisions of Section 702 of NCUA Rules and Regulations. The Credit Union’s actual capital amounts and ratios at December 2012 and 2011 are presented in the following table:

		Minimum amounts to be categorized as:					
		CFCU Actual		Well Capitalized		Adequately Capitalized	
		Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
2012	\$	36,927,056	14.70%	17,576,756	≥ 7%	15,065,791	≥ 6%
2011	\$	34,946,442	15.47%	15,806,711	≥ 7%	13,548,610	≥ 6%

As of December 31, 2012, the most recent call reporting (“Call Report”) period, NCUA categorized the Credit Union as “well capitalized” under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Credit Union’s category.

The Credit Union does not meet the definition of a complex credit union as defined by the National Credit Union Administration.

In performing its calculation of total assets, the Credit Union used the monthly average over the quarter option, as permitted by regulation.

(Continued)

(21) Regulatory Capital, Continued

Under capital adequacy regulations and the regulatory framework for prompt corrective action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance-sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Risk Based Net-Worth (RBNW) ratio

The RBNW requirement only applies for complex Credit Unions with assets greater than \$10,000,000 and a RBNW ratio greater than 6%. The RBNW is based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. The Credit Union RBNW ratio for 2012 and 2011 is 4.42% and 4.96%, respectively.

(22) Commitments

During the year ended December 31, 2008, Caribe Federal Credit Union entered into a lease agreement on facilities for the administrative area. The lease term is for the five (5) years ending February 2013. Monthly rent includes associated costs such as utilities, cleaning, insurance and property tax.

BAIA operates on leased premises under a month-to-month agreement with an entity related with a director, at a monthly charge of \$500.

During the years ended December 31, 2012 and 2011, the total rent expenses amounted to \$117,856 and \$118,613, respectively. The required lease payments under existing agreement ending February 28, 2013 is \$17,638.

(23) Advertising and Promotional Costs

Advertising and promotional costs are expensed as incurred.

(24) Subsequent Events

Management has evaluated subsequent events through March 23, 2013, the date the consolidated financial statements were available to be issued. Subsequent to December 31, 2012, Caribe Federal Credit Union entered into an agreement to acquire new building facilities. The building will provide the space for administrative and operating activities.

CARIBE FEDERAL CREDIT UNION
Consolidating Statement of Financial Condition
December 31, 2012

<u>Assets</u>	<u>CFCU</u>	<u>BCA*</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash and cash equivalents	\$ 69,980,050	63,273	-	70,043,323
Certificates of deposits	2,502,014	-	-	2,502,014
Investments available for sale	18,913,575	-	-	18,913,575
Loans to members, net of allowance for loan losses and net of origination fees	150,704,187	-	-	150,704,187
Accrued interest receivable	621,960	-	-	621,960
Insurance claim receivable	4,254	-	-	4,254
Accounts receivable, net	-	42,737	-	42,737
Prepaid expenses	176,708	2,127	-	178,835
Property and equipment, net	5,937,205	3,337	-	5,940,542
NCUSIF deposit	1,914,215	-	-	1,914,215
Art Collections	77,619	-	-	77,619
Investment in unconsolidated subsidiary, net	75,067	-	(75,067)	-
Other assets	189,664	6,091	-	195,755
	<u>\$ 251,096,518</u>	<u>117,565</u>	<u>(75,067)</u>	<u>251,139,016</u>
<u>Liabilities and Members' Equity</u>				
<u>Liabilities</u>				
Members' shares accounts	\$ 211,359,265	-	-	211,359,265
Accruals and other liabilities	1,136,075	42,498	-	1,178,573
Account payable to auto dealers	1,563,472	-	-	1,563,472
	<u>\$ 214,058,812</u>	<u>42,498</u>	<u>-</u>	<u>214,101,310</u>
<u>Equity</u>				
Members' equity:				
Capital stock – authorized 10,000 shares with a par value of \$100, issued and outstanding 5,000 shares	\$ -	500,000	(500,000)	-
Additional paid-in capital	-	1,000,000	(1,000,000)	-
Appropriated regular reserve (note 12)	3,811,746	-	-	3,811,746
Unappropriated earnings	33,115,310	-	-	33,115,310
Accumulated deficit	-	(1,424,933)	1,424,933	-
Accumulated other comprehensive income	110,650	-	-	110,650
	<u>37,037,706</u>	<u>75,067</u>	<u>(75,067)</u>	<u>37,037,706</u>
Total members' equity	<u>37,037,706</u>	<u>75,067</u>	<u>(75,067)</u>	<u>37,037,706</u>
Total liabilities and members' equity	<u>\$ 251,096,518</u>	<u>117,565</u>	<u>(75,067)</u>	<u>251,139,016</u>

* BCA consolidated with its subsidiary, BAIA.

See independent auditors' report and accompanying notes to consolidated financial statements.

CARIBE FEDERAL CREDIT UNION
Consolidating Statement of Income
Year ended December 31, 2012

	<u>CFCU</u>	<u>BCA*</u>	<u>Eliminations</u>	<u>Consolidated</u>
Interest income:				
Interest and fees on loans	\$ 8,971,354	-	-	8,971,354
Interest on investments	1,150,748	-	-	1,150,748
	<u>10,122,102</u>			<u>10,122,102</u>
Interest expense:				
Dividends on members' shares accounts	2,797,356	-	-	2,797,356
	<u>7,324,746</u>	<u>-</u>	<u>-</u>	<u>7,324,746</u>
Provision for loan losses	(625,118)	-	-	(625,118)
	<u>6,699,628</u>	<u>-</u>	<u>-</u>	<u>6,699,628</u>
Non-interest income	676,856	129,665	-	806,521
Non-interest expenses:				
Compensation and benefits	2,579,916	-	-	2,579,916
Occupancy and related	1,272,320	14,082	-	1,286,402
Other operating expenses	1,381,599	95,768	-	1,477,367
Total non-interest expenses	<u>5,233,835</u>	<u>109,850</u>	<u>-</u>	<u>5,343,685</u>
Income/(loss) before participation in losses of unconsolidated subsidiary and regulatory charges	2,142,649	19,815	-	2,162,464
Participation in losses of unconsolidated subsidiary	19,815	-	(19,815)	-
TCCUSF premium assessment	(181,850)	-	-	(181,850)
Net income/(loss)	<u>\$ 1,980,614</u>	<u>19,815</u>	<u>(19,815)</u>	<u>1,980,614</u>

* BCA consolidated with its subsidiary, BAIA.

See independent auditors' report and accompanying notes to consolidated financial statements.

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