



FEDERAL
CREDIT UNION

¡Una cooperativa hecha para ti!

INFORME ANUAL 2023

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ASAMBLEA ANUAL 2023

VAPR Federal Credit Union

El día 3 de junio de 2023, se celebró la Asamblea Anual de VAPR Federal Credit Union correspondiente al año 2022, en el Salón de Conferencias del Hotel Ponce Hilton en Ponce, Puerto Rico, bajo la presidencia de Katherine Ruiz Díaz, desarrollándose los procedimientos según surge de la presente Acta.

I. LLAMADO AL ORDEN

A las 9:15AM, la Presidente, declara abiertos los trabajos del día.

II. DETERMINACIÓN DE CUÓRUM

Se establece el cuórum reglamentario con 139 presentes.

III. DEDICACIÓN

El Principal Oficial Ejecutivo informa que la Asamblea Anual 2022 está dedicada al señor Ángel L. Vázquez Berrios, Vicepresidente de Operaciones. El señor Vázquez es un baluarte del cooperativismo y del servicio al socio por su compromiso, esfuerzo y la excelente labor realizada en los 40 años que lleva trabajando en la Cooperativa. La Junta de Directores aprobó por consentimiento unánime nombrar el Salón de Junta, Sala Ángel Luis Vázquez Berrios.

IV. INVOCACIÓN

La señora Anilsa Castro ofrece la invocación.

V. HOMENAJE A COOPERATIVISTAS FALLECIDOS

La Presidente lleva a cabo un acto de recordación en honor a los socios cooperativistas fallecidos.

VI. PRESENTACIÓN DE LA JUNTA DE DIRECTORES Y COMITÉS

La Presidente presenta a los miembros de la Junta de Directores e invitados especiales. Expresa su agradecimiento a los miembros de los distintos comités y al personal de la cooperativa.

VII. REGLAS ESPECIALES DE LA ASAMBLEA

La Presidente somete la agenda del día para la consideración de la asamblea. No habiendo cambio alguno propuesto, la misma se aprueba por consentimiento unánime.

VIII. AGENDA

La Presidente enfatiza sobre las Reglas Especiales que se llevarán a cabo durante la asamblea. Las mismas son aprobadas por consentimiento unánime.

IX. LECTURA Y APROBACIÓN DEL ACTA ANTERIOR

La Presidente presenta el Acta correspondiente a la Asamblea Anual del Año 2021, celebrada el 8 de junio de 2022, la cual es aprobada por consentimiento unánime.

X. INFORME JUNTA DE DIRECTORES

La Presidente presenta el Informe de la Junta de Directores correspondiente al año 2022.

La Junta de Directores reconoce la labor voluntaria que llevó a cabo Doris Nevárez Torres, pasada Presidente de la Junta durante el año 2022.

La Presidente informa que el año 2022 fue de cambios, retos y de grandes logros para la Cooperativa.

- Se nombró al Lcdo. José Ernesto Ramos Monell como Principal Oficial Ejecutivo, quien junto al equipo gerencial ha puesto en marcha una nueva era para VAPRFCU.
- Durante el mes de marzo 2022 se nombró a la señora Sonya Dávila Cosme, CPA, como Vicepresidente de Finanzas.
- Se nombró a la Dra. Gabriela Sotomayor Xon, como Oficial de Recursos Humanos.
- Se nombró al señor Alejandro L. Santiago Santana, como Oficial de Cumplimiento.
- Se nombró al señor Kenel Grullón López, como Gerente del Departamento de Préstamos.
- Se comenzaron a cubrir los puestos vacantes en varios departamentos y se

le dio la oportunidad a los empleados a solicitarla a través del sistema de méritos. Los empleados temporeros se nombraron empleados regulares de la cooperativa y se revisaron y se mejoraron los beneficios para los empleados:

- se aumentó el salario mínimo de \$8.50 a \$10.00.
- se ofrecieron seminarios, curso de mejoramiento profesional y de inglés a los empleados.
- Se estableció una aplicación que permite monitorear las llamadas relacionadas con el servicio al socio.
- La Cooperativa se afilió al “Federal Home Loan Bank of New York”, la cual brinda fondos para asistir a personas y/o familiares que necesitan ayuda para completar una transacción hipotecaria.
- Se inició el programa de incentivo de CONFIA para Oficiales de Servicio y Gerentes de Sucursales, lo que redundó en préstamos seguros para la Cooperativa.
- Se cerró el año 2022 con un aumento en el ingreso neto de aproximadamente 300%.
- A tenor con el Plan Estratégico, se pretende incursionar en el área comercial, para brindar servicio a pequeños comerciantes.
- La tarjeta débito con Logo MasterCard debe estar disponible para el primer trimestre del año 2023.
- Se rotuló la sucursal de VAPR Plaza con el Lema que define la Cooperativa: “Somos una Cooperativa Hecha Para Ti”.
- Se recibieron los resultados del examen del Regulador Federal (NCUA), para el año 2022 y los mismos fueron sobresalientes. La Presidente informa que este año hay dos miembros de la Junta de Directores que vencen su término. Se recibieron dos solicitudes de socios interesados a ser miembros de la Junta. No hubo nominación por petición directa.

XI. INFORME DEL TESORERO

El señor Eduardo Ortega Vélez presenta el Informe Anual que corresponde a los estados financieros auditados al 31 de diciembre 2022.

El Tesorero presenta un resumen de los datos más sobresalientes durante el año operacional 2022:

- El año 2022 culminó con un balance de activos de \$238,935,584. El balance de la cartera de préstamos a diciembre de 2022 fue de \$112,740,081, para un aumento neto de \$19,939,864 o 21.49% en comparación con el año anterior.
- Se informa que durante el año 2022 se aprobaron 2,476 solicitudes de préstamos las cuales totalizaron la cantidad de \$56,878,960. Los préstamos aprobados reflejaron un aumento de \$22,577,126, lo que representa un aumento en términos porcentuales de un 66% con relación al año 2021.
- Como medida de control de calidad en el procesamiento de los préstamos, el comité revisó 503 préstamos denegados por el personal de VAPR Federal Credit Union, encontrándose que todos fueron debidamente procesados según los requisitos de la Ley de Igual Oportunidad de Crédito y la Política Prestataria establecida por la Junta de Directores.
- El aumento en la actividad crediticia se logró mediante varias iniciativas implementadas por la Cooperativa, como, por ejemplo: ofertas de tasas de interés competitivas y promoción de los productos financieros. La mayoría de los préstamos otorgados estuvo concentrada en los préstamos de automóviles e hipotecarios.
- La proporción de préstamos morosos al total de préstamos fue de 0.20%, lo cual representa un porcentaje relativamente bajo en comparación con las instituciones financieras en Puerto Rico. La tasa de morosidad de las cooperativas federales localizadas en Puerto Rico fue de 0.45% y en las cooperativas estatales reguladas por COSSEC fue de 1.95%. En el caso de los bancos de Puerto Rico, la tasa de morosidad fue de 2.69%.
- Las acciones y depósitos durante el 2022 reflejaron un aumento de \$3,114,288 o 1.42%. Al 31 de diciembre, el capital regulatorio de la Cooperativa fue de \$24,575,256 para una relación de capital al total de activos de 10.28%. De acuerdo con las regulaciones de la NCUA, una Cooperativa debe tener un mínimo de 7% de capital regulatorio para entrar en la categoría de capitalización adecuada.

- El ingreso de intereses por concepto de préstamos totalizó \$5,467,663, para un aumento de \$407,862. El rendimiento promedio en los préstamos fue de 5.32% en el 2022 y 5.21% en el 2021, lo que representa un aumento de 0.11%. El ingreso de intereses por concepto de inversiones fue de \$1,806,498, para un incremento de \$1,177,467.
- Los gastos generales y administrativos disminuyeron por la cantidad de \$17,772, para una disminución de 2.79%.
- VAPR alcanzó un ingreso neto de \$1,731,004, lo cual reflejó un aumento de \$1,300,412 comparado al año anterior.
- El Comité de Activos y Pasivos (ALCO) se mantiene aunando esfuerzos para cumplir con las metas establecidas en el Plan Estratégico y a la misma vez mantener el balance entre los activos y pasivos.
- Se presentaron distintas ofertas de préstamos durante el año que redundaron en mayor cantidad de préstamos otorgados en comparación con el año anterior hubo un aumento de 1,362 socios nuevos.

La Presidente presenta para su aprobación el informe auditado por el Auditor Independiente, Zayas Morazzani & Co., correspondiente a los estados financieros al 31 de diciembre de 2022 y 2021. El señor Nelson Estepa, presenta moción a los efectos que se aprueben los estados financieros auditados. La misma fue debidamente secundada y aprobada por consentimiento unánime.

XII. INFORME COMITÉ DE SUPERVISIÓN

La señora Vilmarie Noriega Colón informa que el comité ha realizado las funciones propias del mismo a tenor con las disposiciones de la sección 715 de la regulación establecida por "National Credit Union Administration" (NCUA).

La Presidente presenta un resumen de los trabajos realizados para el periodo que comprende desde el 1ro de enero al 31 de diciembre de 2022:

- El comité se reunió en once (11) ocasiones. Se cumplió con el cien por ciento con el plan de trabajo para el año 2022.
- El señor Harold Badillo Mercado, de la compañía Harold Badillo & Asociados continúa brindando servicios como auditor y asesor del comité.

Informa también que los trabajos realizados durante el año se concentraron en las siguientes áreas:

- Análisis de informes financieros trimestrales.
- Seguimiento a medidas correctivas sugeridas por "National Credit Union Administration" (NCUA).
- Verificación de controles internos más relevantes que impactan las operaciones.
- Revisión de cumplimiento con las políticas en diferentes áreas.
- Análisis de riesgo en el área de tecnología y actualización de los planes de contingencia.
- Contratación de los auditores externos de la firma Zayas, Morazzani & Co. El trabajo de los auditores incluye:
 - Pruebas de balances en bancos, inversiones y seguros, incluyendo confirmación de balances.

Además informa que la auditoría externa 2022 concluyó y no hubo hallazgos o ajustes que reportar.

XIII. CERTIFICACIÓN DE LOS RESULTADOS DE LAS ELECCIONES A LA JUNTA DE DIRECTORES

La Presidente informa que este año surgieron dos puestos vacantes en la Junta de Directores por un término de dos años cada una. Se recibieron las solicitudes de los señores Gabriel Olivera Magraner y Eduardo Ortega Vélez, por tal razón, ambos fueron certificados por el Comité de Nominaciones y recomendados a la Junta de Directores para su aprobación.

XIV. OTROS ASUNTOS

El señor José Pérez Elvira recomienda que la actividad social se realice una vez se terminen los trabajos de la asamblea.

La señora Myriam Zayas interesa se le informe sobre las metas y objetivos para el año 2024. El Principal Oficial Ejecutivo informa que el Plan Estratégico 2022-2024 se estará actualizando y que estaremos enfocados en abrir cuentas comerciales dirigidas a pequeños negocios y ofrecer la tarjeta débito con logo MasterCard.

El señor José Zayas Rivera interesa saber si hay alguna otra alternativa para comunicarse con la Cooperativa ya que el cuadro telefónico por regla general está sumamente ocupado.

El señor Carlos Vega recomienda la creación de un Comité de la Juventud. Él está dispuesto a cooperar en la fundación del mismo.

La señora Carmen Correa interesa saber si hay algún plan para extender las ATM's, ya que las ATM's de Oriental no son Share Net y están cobrando un cargo por servicio. El Principal Oficial Ejecutivo informa que está al tanto de dicha situación. Recomienda que el socio puede ir a cualquier cooperativa y realizar sus transacciones sin cargo alguno. La señora Luz Peña informa que la Cooperativa de Cabo Rojo no acepta depósitos. El Principal Oficial Ejecutivo le informa a la socia que ya dicha cooperativa acepta depósitos, ya que se comenzó con el Share Branch hace dos semanas. El señor Kenel Grullón López, Gerente de Préstamos, informa que Share Branch es un sistema que le permite a los socios realizar transacciones (depósitos/retiros) en las cooperativas participantes y que la red de sharebranch.com permite ver el listado de las cooperativas participantes.

El señor José Zayas Rivera recomienda que se instale una máquina ATM en la torre de pacientes del Hospital de Veteranos.

El señor Carlos Vega recomienda auscultar la posibilidad de abrir más sucursales, ya que más personas se beneficiarían de los porcentos de APR que ofrece la Cooperativa. El Principal Oficial Ejecutivo informa que dicho asunto está en su agenda.

La señora Ana María Hernández interesa saber si la Cooperativa requiere llamar cuando el socio está de viaje fuera de Puerto Rico para evitar inconvenientes con el uso de la tarjeta de crédito MasterCard. La Presidente informa que es una medida de seguridad informar a la cooperativa que el socio estará de viaje fuera de Puerto Rico.

El señor Ángel Márquez interesa saber sobre la política de pago de dividendos de las acciones y si dicha política afecta el pago de dividendos, ya que es de su conocimiento que varios socios han retirado sus depósitos porque en otras cooperativas el porcentaje que pagan es mayor. El Principal Oficial Ejecutivo informa que recientemente se aumentaron los intereses en los Certificados de Depósito y próximamente el Comité de Activos y Pasivos (ALCO) estará evaluando el aumento de los dividendos y bajar un poco los límites, que ahora mismo están sobre los veinticinco mil dólares.

XV. CLAUSURA

No habiendo ningún otro asunto por considerar, la Presidente agradece la asistencia de los presentes y declara cerrados los trabajos a las 10:46 AM.

VAPR FEDERAL CREDIT UNION

Katherine Ruiz Díaz,
Presidenta

Olga I. Barreto-Castro,
Secretaria

INFORME DE LA JUNTA DE DIRECTORES

Estimados socios, compañeros de la Junta de Directores, miembros de los distintos comités, oficiales, empleados, invitados y hermanos cooperativistas. Tengan todos la más cordial bienvenida a esta asamblea correspondiente a los trabajos realizados durante el año 2023.

Me place presentarles el informe de la Junta de Directores en el que mostraremos asuntos relevantes de VAPR Federal Credit Union durante el año 2023.

Regresamos a celebrar por segundo año consecutivo nuestra asamblea de manera presencial, el año pasado la realizamos con mucho éxito en el Ponce Hilton y este año estamos aquí en el hermoso Hotel El Conquistador. Como siempre, hemos trabajado para ofrecerles los informes requeridos por reglamento y facilitar la participación de nuestros socios en los trabajos.

El año 2023 fue para VAPR Federal Credit Union, un año lleno de muchos cambios, retos y sobre todo de grandes logros y un notable progreso de los que todos somos parte.

Durante el año se realizaron constantes ajustes, entre los que se encuentran como más sobresalientes los siguientes:

- Nuestro equipo ejecutivo se fortaleció en febrero 2023 con la incorporación del señor Kenel Grullón López como Gerente de Préstamos. Kenel ha desempeñado un papel fundamental en el desarrollo del Departamento de Crédito y se ha destacado especialmente con la implementación exitosa de la Política de Crédito Comercial, entre muchos otros logros significativos.
- Se creó la posición de Oficial de Préstamos Comerciales, y la señora Glorinil Castro Domínguez fue designada para ocuparla. Glorinil tiene una amplia experiencia y conocimiento en el área comercial.
- Se añadieron roles de apoyo para respaldar la implementación del plan estratégico, como Analista Financiero, Gerente de Mercadeo Estratégico y Analista de Préstamos Comerciales.

- Debido al crecimiento en nuestra plantilla de empleados, se inauguró una nueva oficina en el edificio frente a la cooperativa, donde se encuentran ubicados el Departamento de Cobros y el Departamento de Cuentas Comerciales.
- Hemos revisado y optimizado los beneficios para todos nuestros empleados.

Durante el 2023, también se lograron otros éxitos destacados y se implementaron cambios adicionales tales como:

- Recibimos una calificación excepcional en la evaluación de NCUA, lo cual no ocurría desde hace algún tiempo.
- Hemos obtenido la certificación del “Community Development Financial Institution” (CDFI). Esta acreditación nos brinda acceso a fondos federales que no necesitan repago para optimizar nuestras operaciones, permitiéndonos mejorar nuestros servicios tanto para nuestros socios como para la comunidad.
- La introducción de la tarjeta débito con logo MasterCard ya es una realidad, ha sido todo un éxito, y muchos de nuestros socios ya están aprovechando este valioso beneficio.
- Se implementó el “Green Loan” (préstamo verde) creado para proveer préstamos para la compra de sistemas de placas solares.
- En octubre lanzamos la plataforma de educación financiera en línea KOFE (Knowledge of Financial Education), la cual está accesible tanto para nuestros socios como para aquellos interesados a unirse como socios. El objetivo es proporcionar educación financiera que capacite a nuestros socios para que puedan tomar decisiones financieras inteligentes e informadas.
- Se ha introducido un método conveniente y eficiente para realizar pagos en nuestra plataforma, mejorando así la experiencia del socio, especialmente para aquellos que mantienen cuentas en otras instituciones financieras.
- Durante el mes de mayo, en reconocimiento a los 40 años de servicios de nuestro Vicepresidente de Operaciones, el señor

Ángel Luis Vázquez Berríos, se designó la sala de juntas en nuestras oficinas centrales en su honor, como la Sala de Juntas Ángel Luis Vázquez Berríos.

- A finales del 2023 comenzamos la apertura de cuentas comerciales para socios con negocio propio (o DBA), corporaciones o compañías de responsabilidad limitada (o LLC).
- El año 2023 concluyó de manera sobresaliente con un ingreso neto de \$3,113,833.

Sin lugar a ninguna duda que nuestra cooperativa ha continuado distinguiéndose por un servicio personalizado a nuestros socios, y nuestra gerencia continúa trabajando arduamente para ampliar y ofrecer nuevos servicios, así como para ser más competitivos en el mercado cooperativista de Puerto Rico.

Este año, siete (7) miembros de la Junta de Directores verán expirar sus términos. La junta, de manera unánime, decidió reducir el número de miembros de once (11) a nueve (9), en respuesta a la triste notificación de tres directores que optaron por no renovar para este año. Esta reducción se percibe como un paso hacia una junta más dinámica y comprometida con las tareas futuras. El Comité de Nominaciones llevó a cabo entrevistas exhaustivas con todos los candidatos, lo que permitió la aprobación de los que estaban sujetos a reelección, además de la incorporación del nuevo director, el CPA Vicente Gregorio Martínez, a quien extendemos una cálida bienvenida.

Quisiera expresar mi más sincero agradecimiento y profundo aprecio por la destacada labor realizada por el comité, bajo el liderazgo de su presidenta, la licenciada Doris Nevárez Torres, junto a la señora Maribel Oramas Velázquez y el señor Carlos Cabrera Reyes.

En este momento, deseo dirigirme a tres de mis compañeros directores, y les solicito cordialmente que se pongan de pie: la señora Vilmarie Noriega Colón, la licenciada Katherine Ruíz Díaz y el doctor Charles Juarbe Santos.

Quisiera expresar nuestra profunda gratitud hacia estos tres directores por su dedicación voluntaria y contribución significativa a lo largo de los años, en los que han compartido sus ideas y han ayudado a impulsar el desarrollo de la cooperativa. Reconocemos que, aunque ya no ocuparán roles directivos, seguiremos contando con ellos como socios y miembros activos de esta cooperativa. Por favor, acompáñenme en reconocer su valioso aporte con un sincero y fuerte aplauso.

Quiero expresar mi profundo agradecimiento a mis compañeros gerenciales, José Ernesto Ramos Monell, Sonya Dávila Cosme, Ángel Luis Vázquez Berríos y Kenel Grullón López, así como a los gerentes de sucursales, Roy Rodríguez González, Antonio Colón Rodríguez y Juan Carlos Torres Núñez. También agradezco a todos los empleados, miembros de comité y a mis compañeros directores por su confianza continua, dedicación y compromiso durante mi presidencia este año. Sin su respaldo, nuestros logros no habrían sido posibles. Reconozco que ustedes son el motor que impulsa a nuestra cooperativa, permitiéndonos ofrecer un servicio excepcional a nuestros socios. Además, no puede faltar expresar mi gratitud a cada uno de ustedes nuestros socios por su constante apoyo, patrocinio y lealtad.

Al mirar hacia el horizonte, insto a todos a mantener viva esta cultura del cooperativismo, respaldándonos mutuamente y uniendo esfuerzos para lograr nuestras metas compartidas. Es crucial recordar que nuestra fuerza radica en nuestra unión, y que cada aporte contribuye a forjar un futuro más próspero para todos nuestros socios. Agradezco sinceramente a cada uno de ustedes por su dedicación, esfuerzo y confianza en este camino hacia el éxito de nuestra cooperativa VAPR Federal Credit Union.

Eduardo D. Ortega Vélez
Presidente Junta de Directores
VAPR Federal Credit Union

INFORME DEL TESORERO

Estimado Presidente, miembros de la Junta de Directores y de los distintos Comités, Oficiales, empleados, estimados socios e invitados, reciban un cordial saludo.

En representación de nuestra Junta de Directores y Oficiales de VAPR FCU, les presento el informe anual que corresponde a los estados financieros auditados al 31 de diciembre de 2023.

El año 2023 culminó con un balance total de activos de \$249,024,486. El balance neto de la cartera de préstamos a diciembre de 2023 fue de \$125,193,997, para un aumento neto de \$12,453,916 o un 11% en comparación con el año anterior.

De parte de nuestro “Non-Approval Loan Committee” y su Presidenta la Lcda. Doris Nevárez Torres, nos informan que durante el año 2023 se aprobaron 2,560 solicitudes de préstamos, las cuales totalizaron \$52,555,178. Los préstamos aprobados reflejaron una disminución de \$4,323,782, lo que representa una disminución en términos porcentuales de un 7.60% con relación al año 2022.

En el Comité se revisaron quinientas sesenta y cinco (565) solicitudes de préstamos denegadas por los oficiales de VAPR. De dichas solicitudes, el Comité concluyó que todas se procesaron de acuerdo con los requisitos de la Ley de Igualdad de Oportunidad de Crédito (ECO) y la Política Prestataria establecida por la Junta de Directores. El comité agradece a todos nuestros socios y empleados por la confianza que le han tenido.

La actividad crediticia sigue desarrollándose mediante varias iniciativas implantadas por la Cooperativa, como, por ejemplo, ofertas de tasas de interés competitivas y promoción de los productos financieros. La mayoría de los préstamos otorgados estuvo concentrada en los préstamos personales y de automóviles.

Al cierre del 2023, la proporción de préstamos morosos al total de préstamos fue de 0.11%, lo

cual representa un por ciento relativamente bajo en comparación con las instituciones financieras en Puerto Rico. La tasa de morosidad de las cooperativas federales localizadas en Puerto Rico fue de 0.71% y en las cooperativas estatales reguladas por COSSEC fue de 2.18%. En el caso de los bancos de Puerto Rico, la tasa de morosidad fue de 2.00%. Esta relación demuestra que la Cooperativa mantiene una cartera de préstamos sumamente saludable.

Las acciones y depósitos de los socios durante el 2023 reflejaron un aumento de \$6,217,017 o 2.79%, este incremento fue provocado por depósitos de nuevos socios y ajustes en tasas de dividendos pagadas sobre los certificados. Al 31 de diciembre, el capital regulatorio de la Cooperativa fue de \$26,741,029, para una relación de capital al total de activos de 10.74%. De acuerdo con las regulaciones de la NCUA, una Cooperativa debe tener un mínimo de 7% de capital regulatorio para entrar en la categoría de capitalización adecuada.

El ingreso de intereses por concepto de préstamos totalizó \$7,031,232, para un aumento de \$1,563,569. El rendimiento promedio en los préstamos fue de 5.91% en el 2023 y 5.32% en el 2022, lo que representa un aumento de 0.59%. Este aumento se debe principalmente al incremento en el balance de los préstamos y ajustes en las ofertas de préstamos. El ingreso de intereses por concepto de inversiones fue de \$3,291,092, para un incremento de \$1,484,594, este aumento se debe principalmente a que la Cooperativa movió balance disponible de efectivo a instrumentos con mayor rendimiento.

El gasto de provisión para pérdidas en préstamos incobrables fue de \$200,000 para el 2022 y \$794,485 para el 2023, lo cual refleja un aumento de \$594,485, este incremento se debe principalmente a el aumento en la cartera de préstamos y cambio en el método para el análisis y estimado de la reserva de préstamos incobrables. Mantener una reserva de préstamos incobrables adecuada es esencial, ya que ayuda a mitigar riesgos, y permite preservar la salud y estabilidad financiera de la Cooperativa. Durante el 2023 los

cargos contra la reserva de préstamos incobrables fueron de \$1,074,439, lo que reflejó un aumento de \$649,677 comparado con el 2022, la mayoría de estas pérdidas fueron en el renglón de préstamos personales y reposiciones de autos. El total de préstamos acogidos a la Ley de Quiebra que fueron eliminados contra la reserva fue de \$87,113 y representa un 8.11% del total de préstamos eliminados durante el 2023.

En el renglón de otros ingresos la Cooperativa obtuvo \$1,841,143. Estos ingresos corresponden a cargos por servicio, cargos por demora, ingresos de intercambio en transacciones de tarjeta de crédito y cajeros automáticos, además de otros relacionados a alianzas con empresas cooperativas de seguros. Los gastos generales y administrativos aumentaron por la cantidad de \$819,218, para un aumento de 11%. Este renglón incluye el gasto de salario y beneficios marginales, consultorías, mantenimiento de oficinas, depreciación, entre otros.

Aunque Puerto Rico sigue enfrentando desafíos económicos y hay un clima de incertidumbre debido a los recientes cambios en las tasas de interés, VAPR alcanzó un ingreso neto de \$3,113,833, lo cual reflejó un aumento de \$1,382,829 comparado al año anterior. Este aumento se debe al esfuerzo y el arduo trabajo en equipo de todos los empleados y el cuerpo directivo de la Cooperativa.

El Comité de ALCO se ha mantenido trabajando arduamente para el cumplimiento de las metas establecidas en el Plan Estratégico y a su vez mantener el balance entre activos y pasivos de la Cooperativa.

Estamos muy enfocados en impulsar el aumento de la cartera de préstamos y continuar ofreciendo los mejores servicios a todos nuestros socios. A tales efectos, se presentaron distintas ofertas de préstamos durante el año que redundaron en mayor cantidad de préstamos otorgados en comparación con el año anterior y 1,522 socios nuevos. Les hago una invitación para que inviten a sus familiares, compañeros de trabajo y amigos a formar parte de esta su Cooperativa. De igual

forma, les exhorto a que nos ayuden a continuar promocionando la Cooperativa y que fomenten el patrocinio de nuestros productos y servicios, su compromiso es la mejor forma de asegurar el crecimiento de la Institución.

Damos gracias a Dios, a nuestros compañeros de la Junta de Directores, a los empleados de la Administración, a nuestro CEO, el Lcdo. José Ernesto Ramos Monell, nuestra CFO, Sonya M. Dávila Cosme y nuestro VP de Operaciones, Ángel Luis Vázquez Berríos, por su compromiso en el servicio a nuestros socios.

Tenemos otro año lleno de mucho trabajo y muchos desafíos, pero en unión a la Junta de Directores, la gerencia y todos los empleados, lograremos continuar el crecimiento y fortalecimiento de nuestra cooperativa VAPR FCU.

Roberto Rivera Ponce

Tesorero
Junta de Directores

INFORME DEL COMITÉ DE SUPERVISIÓN

Buenos días tengan todos. Compañeros de la Junta de Directores, empleados (motor de nuestra cooperativa), socios e invitados a esta nuestra Asamblea Anual. Reciban un cordial saludo de parte del Comité de Supervisión de VAPR Federal Credit Union.

El Comité de Supervisión en cumplimiento con la Sección 715 de la Regulación establecida por la “National Credit Union Administration” (NCUA), llevó a cabo sus funciones y responsabilidades durante el año 2023.

Entre las responsabilidades principales del comité se encuentran:

- a) Asegurar el cumplimiento de las reglas y regulaciones de NCUA.
- b) Salvaguardar los objetivos financieros de nuestra Cooperativa.
- c) Asegurar que las metas financieras sean cumplidas por la administración.
- d) Proteger los activos de los socios.

Durante el año 2023 el comité se reunió 12 veces (1 vez cada mes) y cumplimos al 100% con nuestro plan de trabajo. Durante este año continuamos con la asistencia de los servicios del señor Harold Badillo Mercado de la compañía Harold Badillo & Asociados, como auditor y asesor del Comité de Supervisión, para realizar las auditorías, exámenes de los controles internos y cumplimiento de la Institución.

Las tareas del comité son establecidas según su prioridad y análisis de riesgo. Los trabajos realizados durante el año se concentraron en las siguientes áreas:

1. Análisis de los Estados Financieros Auditados.
2. Seguimiento a medidas correctivas sugeridas por los auditores de NCUA.
3. Seguimiento al Plan Estratégico aprobado por la Junta de Directores.
4. Verificación de las operaciones del Departamento de Crédito.
5. Verificación de las operaciones del Departamento de Cobros.
6. Verificación de las operaciones del Departamento de Cumplimiento.
7. Análisis de Contratos por Servicios Profesionales.
8. Revisión de las Cuentas de Empleados, Directivos y Familiares.
9. Prueba de las Cuentas Inactivas o Cuentas sin Movimiento.
10. Evaluación del Cuadre de las Cuentas Bancarias por parte del Departamento de Contabilidad.
11. Análisis de la Cartera de Inversiones en Valores y compras de Nuevas Inversiones.
12. Manejo de cuentas de Socios Fallecidos.
13. Control de Acceso del personal.
14. Visitas a Sucursales para los arqueos de caja y verificación de procedimientos internos.
15. Desembolsos de facturas para compras y servicios profesionales.
16. Servicio al cliente y aperturas de Cuentas Nuevas y cierres de cuentas de socios.
17. Manejo de las Tarjetas de Créditos asignadas a gerenciales de la cooperativa.
18. Revisión de Cumplimiento con las políticas relacionadas a Recursos Humanos.

Estas pruebas son realizadas y discutidas en las reuniones mensuales del comité y con la gerencia. Posteriormente se continúa el seguimiento a cualquier sugerencia y/o hallazgo.

Adicional a los trabajos de auditoría interna, se contrataron los servicios de la firma de CPA, Zayas, Morazzani & Co., como auditores externos de los estados financieros. El trabajo realizado por los Auditores comprende principalmente, evaluaciones en las siguientes áreas:

- Pruebas y confirmaciones de balances en bancos, certificados, inversiones y seguros.
- Selección y envío de confirmaciones de balances de préstamos y depósitos a los socios.
- Análisis y pruebas de balances de propiedad, equipos y otros activos.
- Seguimiento a las deudas registradas y análisis de cuentas de ingresos y gastos.
- Verificación de los estimados y aplicación de nuevos estándares de contabilidad.

La auditoría externa 2023 concluyó y fue una sin hallazgos que reportar, por lo que agradecemos a la gerencia por su excelente manejo financiero.

Agradezco a Myriam Zayas Ramos, Anna Isabel Rosario Castañer y a Nancy González Sosa, miembros del Comité de Supervisión por su compromiso, dedicación y sobre todo por su tiempo de trabajo voluntario para el bienestar de los socios de nuestra cooperativa. Asimismo, expresamos nuestra gratitud a Ángel Luis Vázquez Berríos por su constante respaldo al comité, así como a varios gerentes a quienes hemos contactado y que han demostrado disponibilidad inmediata para atender cualquier consulta.

Agradecemos también a nuestros colaboradores que con su conocimiento y profesionalismo nos apoyaron en el cumplimiento de nuestras funciones. A ustedes nuestros socios, les agradecemos el apoyo que le dan a nuestra Cooperativa.

Sra. Vilmarie Noriega Colón

Presidente

Comite de Supervisión

VAPR Federal Credit Union
Financial Statements
December 31, 2023 and 2022
(With Independent Auditor's Report Thereon)

ZAYAS, MORAZZANI & CO.
CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 366225
San Juan, Puerto Rico 00936-6225
(787) 753-7025
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Independent Auditor's Report

Supervisory Committee and Members of
VAPR Federal Credit Union
San Juan, Puerto Rico

Opinion

We have audited the accompanying financial statements of VAPR Federal Credit Union, which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income/(loss) changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VAPR Federal Credit Union as of December 31, 2023 and 2022, 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.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about VAPR Federal Credit Union's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

San Juan, Puerto Rico
April 3, 2024

Stamp. No. E563552 of the Puerto
Rico Society of Certified Public
Accountants was affixed to original.

Zayas, Morazzani & Co.

VAPR Federal Credit Union
Statements of Financial Condition
December 31, 2023 and 2022

<u>Assets</u>	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 28,179,144	\$ 23,752,921
Certificates of deposits	3,224,000	1,984,000
Marketable securities:		
Available-for-sale	72,433,700	80,282,482
Held-to-maturity	6,592,676	6,550,461
Other investments	180,274	177,509
Loans to members, net of allowance for credit losses and net of origination fees	125,193,997	112,740,081
Accrued interest and accounts receivable	746,877	613,793
Property and equipment, net	9,980,846	10,286,983
NCUSIF deposit	2,054,388	2,066,169
Other assets	438,584	481,185
Total assets	<u>\$ 249,024,486</u>	<u>\$ 238,935,584</u>
<u>Liabilities and Members' Equity</u>		
<u>Liabilities</u>		
Members' accounts	\$ 228,495,103	\$ 222,278,086
Accruals and other liabilities	903,990	1,004,296
Total liabilities	<u>229,399,093</u>	<u>223,282,382</u>
Commitments, contingencies and subsequent events		
<u>Members' Equity</u>		
Members' equity		
Regular reserve	2,908,705	2,908,705
Undivided earnings	23,832,324	21,666,551
Accumulated other comprehensive loss	(7,115,636)	(8,922,054)
Total members' equity	<u>19,625,393</u>	<u>15,653,202</u>
Total liabilities and members' equity	<u>\$ 249,024,486</u>	<u>\$ 238,935,584</u>

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

VAPR Federal Credit Union
Statements of Income
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Interest income:		
Interest and fees on loans	\$ 7,031,232	\$ 5,467,663
Interest on investments	<u>3,291,092</u>	<u>1,806,498</u>
	10,322,324	7,274,161
Interest expense:		
Dividends on members' shares and saving accounts	<u>(1,082,502)</u>	<u>(237,640)</u>
Net interest income	9,239,822	7,036,521
Provision for loan losses	<u>(794,485)</u>	<u>(200,000)</u>
Net interest income after provision for loan losses	<u>8,445,337</u>	<u>6,836,521</u>
Non-interest income	<u>1,841,143</u>	<u>1,247,912</u>
Non-interest expense:		
Compensation and benefits	3,010,827	2,429,811
Professional services	1,207,032	1,231,870
Depreciation and amortization	419,054	431,847
Insurance and other fees	331,859	426,703
ATM and bank charges	416,109	366,305
Data processing	348,455	310,237
Repairs and maintenance	383,069	391,930
Printing and materials	74,274	75,319
Communications	172,108	166,902
Administrative and office expenses	195,198	152,886
Other expenses	<u>614,662</u>	<u>369,619</u>
Total non-interest expenses	<u>7,172,647</u>	<u>6,353,429</u>
Net income	<u>\$ 3,113,833</u>	<u>\$ 1,731,004</u>
	<u>2023</u>	<u>2022</u>
Net income	\$ 3,113,833	\$ 1,731,004
Changes in unrealized loss on available-for-sale securities	<u>1,806,418</u>	<u>(8,780,732)</u>
Total comprehensive income/(loss)	<u>\$ 4,920,251</u>	<u>\$ (7,049,728)</u>

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

VAPR Federal Credit Union
 Statements of Changes in Members' Equity
 Years ended December 31, 2023 and 2022

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2021	\$ 2,908,705	\$ 19,935,547	\$ (141,322)	\$ 22,702,930
Net income	-	1,731,004	-	1,731,004
Comprehensive income (loss)	-	-	(8,780,732)	(8,780,732)
Balances, December 31, 2022	\$ 2,908,705	21,666,551	(8,922,054)	15,653,202
Net income	-	3,113,833	-	3,113,833
Cumulative change in accounting principle	-	(948,060)	-	(948,060)
Comprehensive income (loss)	-	-	1,806,418	1,806,418
Balances, December 31, 2023	\$ 2,908,705	\$ 23,832,324	\$ (7,115,636)	\$ 19,625,393

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

VAPR Federal Credit Union
Statements of Cash Flows
Years ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	\$ 3,113,833	\$ 1,731,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	419,054	431,847
Provision for possible loan losses	794,485	200,000
Loss on disposition of repossessed assets	58,627	44,727
Changes in assets and liabilities:		
Decrease on accrued interest receivable	(133,084)	(164,422)
Decrease in other assets	(16,026)	(94,999)
(Decrease)/increase in accruals and other liabilities	(100,306)	389,746
Total adjustments	1,022,750	806,899
Net cash provided by operating activities	\$ 4,136,583	2,537,903
Cash flows from investing activities:		
Net (increase) in certificates of deposits	\$ (1,240,000)	(1,744,000)
Net cash proceeds from maturities, disposition and return on principal over investments securities	9,612,985	22,155,691
Acquisition of available-for-sale investments	-	(21,416,175)
Acquisition of held-to-maturity investments	-	(6,327,598)
Increase in other investments, net	(2,765)	(100,489)
Increase in loans to members, net	(14,196,461)	(20,139,864)
Acquisition of property and equipment	(112,917)	(40,356)
Credit from NCUSIF	11,781	8,055
Net cash used in investing activities	(5,927,377)	(27,604,736)
Cash flows from financing activities:		
Increase in members accounts, net	6,217,017	3,114,288
Net cash provided by financing activities	6,217,017	3,114,288
Net increase/(decrease) in cash and cash equivalents	4,426,223	(21,952,545)
Cash and cash equivalents, at beginning of year	23,752,921	45,705,466
Cash and cash equivalents, at end of year	\$ 28,179,144	\$ 23,752,921

(Continued)

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

VAPR Federal Credit Union
Statements of Cash Flows
Years ended December 31, 2023 and 2022

Supplemental Disclosures of Cash Flow Information

During the years ended December 31, 2023 and 2022, unrealized (loss)/gain on securities available-for-sale were recognized for \$(1,806,418) and \$(8,780,732), respectively, representing a non-cash item. Those charges are not reported as part of the net income for those years since they represent other comprehensive income.

Supplemental Disclosures of Non-Cash Transactions

During the years ended December 31, 2023 the Credit Union adopted ASU Topic 326 and registered \$948,060 as an accumulative change in accounting principle as part of unappropriated earnings.

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

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022

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

Organization and Nature of Operations

VAPR Federal Credit Union (“the Credit Union”) is a non-profit organization established in 1950 organized and chartered under the Federal Credit Union Act. The Credit Union serves employees of VA Caribbean Healthcare System in Puerto Rico and immediate family members, other federal and states employees, and specific employee groups in Puerto Rico. 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.

Basis of Presentation

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

Significant Accounting Policies

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

Use of Estimates

The preparation of the accompanying financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Specifically, management has made estimates based on assumptions for fair value of financial instruments and the assessment of other than temporary impairment on investments. Actual results could differ from those estimates.

Concentrations and Credit Risk

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

Credit risk for loans receivable and members accounts represents a concentration risk since most of the Credit Union’s members are in the Puerto Rico geographical area.

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022

- 2 -

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

Cash and Cash Equivalents

For purposes of the statement of financial condition classification and the statements of cash flows, the Credit Union considers all highly liquid investment securities acquired with an original or remaining maturity of three (3) months or less, and any certificates of deposit that do not contain material early withdrawal penalties, to be cash equivalents.

Deposits in Other Financial Institutions

Deposits in other financial institutions include certificates of deposit. These are stated at cost. The certificates of deposit all mature within two (2) years.

Investment Securities

Investments in securities are made in accordance with the Credit Union's policies, which incorporate the regulations of the National Credit Union Administration (NCUA), hence, they are principally in federally sponsored and guaranteed instruments. Gains or losses on disposition are based on the net proceeds and the 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.

Fair Value Measurements

The Credit Union follows the guidance of FASB ASC 825 - Financial Instruments, and FASB ASC 820- Fair Value Measurement. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022
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(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Fair Value Measurements, Continued

The Credit Union's investments in debt securities are classified and accounted for as follows:

- Available-for-Sale: Government and government agency bonds, notes, and certificates are classified available-for-sale, when the Credit Union anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. These securities are reported at fair value.
- Held-to-Maturity: Government and government agency bonds, notes, and certificates which the Credit Union has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Unrealized gains and losses on debt securities available-for-sale are recognized as direct increases or decreases in other comprehensive income. Purchase premiums and discounts are typically recognized in interest income using the interest method over the terms of the securities. However, the premiums on callable debt securities are amortized over the period to the earliest call date. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment (OTTI) losses, management considers (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. Gains and losses on the sale of securities are recorded on the trade date and the costs of securities sold are determined using the specific identification method.

The Credit Union does not maintain a trading portfolio. Other investments are classified separately, stated at cost and subject to impairment.

(Continued)

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

Loans to Members

Loans are reported at their recorded investment, which is the outstanding principal balance and net of any unearned income, such as deferred fees or costs, charge-offs and unamortized premiums or discounts on originated loans. Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. When principal or interest is delinquent for ninety (90) days or more, the Credit Union evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans, where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

Loan fees and certain direct loan origination costs are deferred, and the net cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Credit Union's historical prepayment experience.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as tool to assist the Credit Union in identifying loans for charge-off on a timely basis. All loans will be charged-off once deemed uncollectible.

Generally, non-performing loans are deemed to be impaired when they become three (3) months delinquent unless it is determined prior that there is no collectability based on the established loan life collections process. This process includes well defined procedures and guidelines used to identify, monitor, and address non-performing loans and when they should be considered for charge-off.

(Continued)

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

Troubled Debt Restructurings

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 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. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. In cases where the Credit Union grants the member new terms that provide for a reduction of either interest or principal, the Credit Union measures any impairment on the restructuring as previously noted for impaired loans.

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.

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management reviews all material assets annually for possible impairment. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Management has concluded that no indications of impairment are evident at December 31, 2023 and 2022.

NCUSIF Insurance Premiums

A credit union is required to pay an annual insurance premium based on a percent of its total insured shares unless the payment is waived or reduced by the NCUA Board.

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022

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

Foreclosed Assets

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Members' Share and Savings Accounts

Members' share and savings accounts are subordinated to all other liabilities of the Credit Union upon liquidation. Interest on members' share and savings accounts is based on available earnings at the end of an interest period and is not guaranteed by the Credit Union. Interest rates on members' share and savings accounts are set by the Board of Directors, based on an evaluation of current and future market conditions.

Members' Equity

The Credit Union is required by regulation to maintain a statutory regular reserve. This reserve, which represents a regulatory restriction of members' equity, is not available for the payment of dividends. The statutory reserve consists of \$2,908,705 as of 2023 and 2022.

Comprehensive Income/(Loss)

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

Reclassifications

Certain reclassifications have been made to the 2022 financial statements to conform with the 2023 financial statements presentation.

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022

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

Adoption of New Accounting Standards

On January 1, 2023 the Credit Union adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not, they will be required to sell.

The Credit Union adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Credit Union recorded a net decrease to undivided earnings of \$948,060 as of January 1, 2023 for the cumulative effect of adopting ASC 326. The transition adjustment comprised an increase in its allowance for credit losses related to its loan portfolio of \$913,133 and an increase of \$34,927 allowance for credit losses for Off Balance Sheet Exposures which is recorded in Accruals and Other Liabilities. The following table illustrates the impact of ASC 326:

	January 1, 2023		
	As Reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Loans to Members	\$ 113,966,090	\$ 113,966,090	\$ -
Unamortized premiums and deferred origination fees	169,412	169,412	-
Allowance for Credit losses on loans	<u>(2,308,555)</u>	<u>(1,395,422)</u>	<u>(913,133)</u>
Net Loans	111,826,947	112,740,080	(913,133)
Liabilities:			
Allowance for credit losses on credit exposures	<u>(34,927)</u>	<u>-</u>	<u>(34,927)</u>
	<u>\$ 111,792,020</u>	<u>\$ 112,740,080</u>	<u>\$ (948,060)</u>

(Continued)

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

Adoption of New Accounting Standards

Debt Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities not classified as held-to-maturity or trading are classified as available-for-sale. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income.

Allowance for Credit Losses – Held-to-Maturity Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management classifies held-to-maturity portfolio in the following major security types: US Government Obligations and Mortgage-backed: Residential and Other. All the US Government obligations and nearly all the mortgage-backed securities held by the Credit Union are issued by the U.S. government entities and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The remainder of the mortgage-backed securities are non-agency collateralized mortgage obligations which current carry ratings are no lower than AAA/A.

Allowance for Credit Losses – Available-for-Sale Securities: For available-for-sale securities in an unrealized loss position, the Credit Union first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the criteria, the Credit Union evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to amortized cost basis of security. If present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

(Continued)

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

Adoption of New Accounting Standards

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charges against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost (net of the allowance for credit losses). Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income without anticipating prepayments.

Interest income on loans is discounted and places on nonaccrual status at the time the loan is ninety (90) days delinquent. Loans are charged off at ninety (90) days past due. Past due status is based on the contractual terms of the loan. A loan is considered past due after sixty (60) days. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans: The allowance for credit losses is a valuation account that is deducted from or added to the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed and expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquent level, or term as well as changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

(Continued)

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

Adoption of New Accounting Standards

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Credit Union has identified the following portfolio segments and measures the allowance for credit losses using the following methods.

- a. Transferred auto loans
- b. New auto loans
- c. Used auto loans
- d. Consumer loans (partially secured)
- e. Consumer loans
- f. Consumer troubled debt loans
- g. Lines of credits
- h. Credit cards
- i. Mortgage loans

After carefully screening the availability of the data, the Credit Union decided to use the weighted average remaining balance (WARM) model. The weighted average remaining maturity method (WARM) is an acceptable method for estimating expected credit losses (including those in subtopic 326-20) that uses an average annual net charge/loss ratio, which includes the loss content over various periods and is used as a basis for estimating the credit loss content for the remaining balance sheets of financial assets in a pool at the balance sheet date. The average annual loss rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical loss rate for the remaining balance of financial assets. The historical loss rate calculation does not include a reasonable and sustainable forecast period. Like other loss rate methods that can be used to estimate expected credit losses, consideration of reasonable and sustainable forecasts when applying the WARM method is incorporated through the qualitative factor. The annual loss rate to be applied is based on the historical loss reported by the Credit Union for each pool, using a 3-year look-back period.

Loans that do not share risks characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. When management determines that foreclosure is probable expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for undiscounted selling costs as appropriate.

(Continued)

VAPR Federal Credit Union
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(1) Organization, Nature of Operations, Basis of Presentation and Significant Accounting Policies, Continued

Adoption of New Accounting Standards

For certain products or portfolios, other considerations may be relevant in determining the contractual term for purposes of assessing expected life. For assets without established maturity dates, such as lines of credit, the contractual term must be consistent with the terms described in the credit agreement. For example, if the amount borrowed on a line of credit is payable one year after withdrawal and is not unconditionally cancelable, the contractual term for the estimate of expected credit losses must be based on the one-year period, even if the date of withdrawal and amount are not yet known.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures: The Credit Union estimates expected credit losses over the contractual period in which the Credit Union is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Credit Union. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The following categories of off-balance sheet credit exposures have been identified:

Credit Union's off balance sheet items consists of the non-used portion of total credit extended on revolving loans and credit cards (member's available balance). The Credit Union applied the same method for used portions of the revolving lines of credit.

(1) Federal and State Income Taxes

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

Cash and Cash Equivalents

The composition of cash and cash equivalents is as follows:

	As of December 31, 2023	As of December 31, 2022
	<u> </u>	<u> </u>
Change fund	\$ 1,510,432	\$ 1,378,948
Regular and saving accounts	26,172,712	22,373,973
Certificate of Deposit	496,000	-
Total cash and cash equivalents	\$ <u>28,179,144</u>	\$ <u>23,752,921</u>

(Continued)

VAPR Federal Credit Union
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(3) Certificates of Deposits

The Credit Union maintains certificates of deposits in denominations of \$248,000. The scheduled maturities are as follows:

	As of December 31, 2023	As of December 31, 2022
Due in two (2) year or less	\$ 3,224,000	\$ 1,984,000

(4) Investments Securities

Available-for-Sale

As of December 31, 2023 and 2022, the amortized cost and aggregate fair values of investments securities available-for-sale are:

Description	As of December 31, 2023		
	Amortized Cost	Net Unrealized (Loss)	Fair Value
U.S. Government Obligations	\$ 2,000,000	\$ (15,234)	\$ 1,984,766
U.S. Agencies Guaranteed Mortgage Backed Securities	48,824,940	(3,865,248)	44,959,692
Non-Federal Agency Mortgage Backed Securities	17,387,292	(1,852,329)	15,534,963
U.S. Municipal Bonds and Corporate Investment instruments	11,337,104	(1,382,825)	9,954,279
	<u>\$ 79,549,336</u>	<u>\$ (7,115,636)</u>	<u>\$ 72,433,700</u>

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
December 31, 2023 and 2022

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(4) Investments Securities, Continued

Description	December 31, 2022		
	Amortized Cost	Net Unrealized Gain/(Loss)	Fair Value
U.S. Government Obligations	\$ 4,504,655	\$ (67,343)	\$ 4,437,312
U.S. Agencies Guaranteed Mortgage Backed Securities	54,819,018	(4,648,242)	50,170,776
Non-Federal Agency Mortgage Backed Securities	18,479,376	(2,286,422)	16,192,954
U.S. Municipal Bonds and Corporate Investment instruments	11,401,487	(1,920,047)	9,481,440
	<u>\$ 89,204,536</u>	<u>\$ (8,922,054)</u>	<u>\$ 80,282,482</u>

Available-for-sale, Continued

Unrealized losses on securities have not been recognized into income because the issuer(s) bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continues to make timely principal and interest payments on the bonds and the fair value is expected to recover as the bond(s) approach maturity. Most of the unrealized losses are related to the Credit Union's mortgage-backed and other securities as discussed below:

As of December 31, 2023, approximately 84% of the mortgage-backed securities held by the Credit Union were issued by U.S. Government -sponsored entities and agencies. Because the decline in fair value is attributable to changes in interest rates, and not credit quality, and because the Credit Union does not have the intent to sell these mortgage-backed securities and it is likely that it will not be required to sell the securities before their anticipated recovery, the Credit Union does not consider these securities to be other-than-temporarily impaired at December 31, 2023.

The Credit Union's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of \$15,534,963 which had unrealized losses of approximately \$1,852,329 at December 31, 2023. These non-agency mortgage-backed securities were rated AAA at purchase. The Credit Union does not have the intent to sell these securities and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuer(s) continues to make timely principal and interest payment on the bonds. The Credit Union evaluates if a credit loss exists by, monitoring to ensure it has adequate credit support, as of December 31, 2023, the Credit Union believes there are no adverse conditions that may affect the collection of these securities.

(Continued)

VAPR Federal Credit Union
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(4) Investments Securities, Continued

Held-to-Maturity

The amortized cost and aggregate fair values of held-to-maturity investments securities follows:

Description	As of December 31, 2023		
	Amortized Cost	Net Unrealized Loss	Fair Value
U.S. Government Obligations	\$ 6,392,698	\$ (93,762)	\$ 6,298,936
U.S. Municipal Bonds and Corporate Investment instruments	199,978	(3,168)	196,810
	\$ 6,592,676	\$ (96,930)	\$ 6,495,746

Description	As of December 31, 2022		
	Amortized Cost	Net Unrealized Loss	Fair Value
U.S. Government Obligations	\$ 6,350,526	\$ (179,042)	\$ 6,171,484
U.S. Municipal Bonds and Corporate Investment instruments	199,935	(11,139)	188,796
	\$ 6,550,461	\$ (190,181)	\$ 6,360,280

The amortized cost and estimated fair value of investment securities, at December 31, 2023 and 2022, 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.

(Continued)

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(4) Investments Securities, Continued

Available-for-Sale

	<u>2023</u> Amortized Cost	<u>2023</u> Estimated Fair Value	<u>2022</u> Amortized Cost	<u>2022</u> Estimated Fair Value
<u>Amounts maturing in:</u>				
Due in five years or less	\$ 7,915,934	\$ 7,733,281	\$ 11,294,325	\$ 11,031,908
Due between five and ten years	10,294,602	9,018,142	11,103,919	9,197,334
Due after ten years	<u>61,338,800</u>	<u>55,682,277</u>	<u>66,806,292</u>	<u>60,053,240</u>
	<u>\$ 79,549,336</u>	<u>\$ 72,433,700</u>	<u>\$ 89,204,536</u>	<u>\$ 80,282,482</u>

	<u>2023</u> Amortized Cost	<u>2023</u> Estimated Fair Value	<u>2022</u> Amortized Cost	<u>2022</u> Estimated Fair Value
<u>Amounts maturing in:</u>				
Due in five years or less	\$ 6,592,676	\$ 6,465,746	\$ 6,550,461	\$ 6,360,280
Due between five and ten years	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,592,676</u>	<u>\$ 6,465,746</u>	<u>\$ 6,550,461</u>	<u>\$ 6,360,280</u>

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.

(Continued)

VAPR Federal Credit Union
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(5) Loans to Members

The composition of loans to members follows:

	As of December 31, 2023	As of December 31, 2022
Personal	\$ 31,676,067	\$ 22,872,648
Lines of credit and master card	4,654,016	4,139,631
Mortgage	11,225,289	11,954,186
Share secured loans	2,953,213	2,521,309
Directors and Board members	2,250	76,316
Auto	76,000,046	71,490,914
Refinance and modifications	751,259	794,616
Home equity	112,649	70,140
Others	21,791	46,330
	127,396,580	113,966,090
Less: Unamortized premiums and deferred origination fees	142,799	169,413
Allowance for loan losses	(2,345,382)	(1,395,422)
Subtotal	(2,202,583)	(1,226,009)
Total loans to members, net	\$ 125,193,997	\$ 112,740,081

Credit Quality Information

The Credit Union has various types of consumer loans with different credit risks. Delinquency, credit score and collateral value are the indicators used by the Credit Union to evaluate and monitor the allowance for loan losses. Delinquency is the principal factor to evaluate provision of allowance for loan losses.

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 ninety (90) days past due. As of December 31, 2023 and 2022 there were no loans in non-accruing status.

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
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(5) Loans to Members, Continued

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

Age Analysis of Loans to Members Receivables by Category As of December 31, 2023				
	0-60 days	61-180 days	Total	90 days and Non-accruing
Consumer:				
Personal and Others	\$ 39,983,902	\$ 74,694	\$ 40,058,596	\$ -
Mortgage	11,337,938	-	11,337,938	-
Auto	75,939,393	60,653	76,000,046	-
Total loans to members	\$ 127,261,233	\$ 135,347	\$ 127,396,580	\$ -

Age Analysis of Loans to Members Receivables by Category As of December 31, 2022				
	0-60 days	61-180 days	Total	90 days and Non-accruing
Consumer:				
Personal and Others	\$ 30,403,946	\$ 46,904	\$ 30,450,850	\$ -
Mortgage	12,024,326	-	12,024,326	-
Auto	71,308,108	182,806	71,490,914	-
Total loans to members	\$ 113,736,380	\$ 229,710	\$ 113,966,090	\$ -

The following table summarizes the mortgage portfolio with collateral values:

As of December 31, 2023				
	0-80%	81-90%	91-100%	Total
Mortgage:				
First Mortgage	\$ 11,337,938	\$ -	\$ -	\$ 11,337,938
Second Mortgage	-	-	-	-
Total	\$ 11,337,938	\$ -	\$ -	\$ 11,337,938

(Continued)

VAPR Federal Credit Union
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(5) Loans to Members, Continued

As of December 31, 2022					
		0-80%	81-90%	91-100%	Total
Mortgage:					
First Mortgage	\$	11,954,186	\$ -	\$ -	\$ 11,954,186
Second Mortgage		70,140	-	-	70,140
 Total	 \$	12,024,326	-	-	\$ 12,024,326

Allowance for Credit Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. To determine the total allowance for loan losses, management estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a collective basis. The allowance for loan losses consists of amounts applicable to: (i) consumer loans (personal, auto, mortgage, line of credit, credit card and others).

A summary of the movement of the allowance for loan losses for the year ended December 31, 2023 and 2022 follows:

		2023		2022
Balance, beginning of year prior to adoption of ASC 326	\$	1,395,422	\$	1,366,545
Impact of Adopting ASC 326		913,133		-
Provision charged to operations		814,519		200,000
Loans charged-offs		(1,074,439)		(424,762)
Recoveries		296,749		253,639
Balance, end of year	\$	2,345,384	\$	1,395,422

(Continued)

VAPR Federal Credit Union
Notes to Financial Statements
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(6) Accrued Interest and Accounts Receivable

The following are the components of accrued interest and accounts receivable:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
Accrued interests on loans	\$ 381,971	\$ 273,585
Accrued interests on investments	334,377	303,980
Accounts receivable	16,534	23,038
Other accounts receivable	<u>13,995</u>	<u>13,190</u>
Total accrued interest and accounts receivable	<u>\$ 746,877</u>	<u>\$ 613,793</u>

(7) Property and Equipment, Net

Property and equipment is summarized as follows:

	<u>As of December 31, 2023</u>	<u>As of December 31, 2022</u>
Building	\$ 7,608,884	\$ 7,608,884
Leasehold improvements	1,418,639	1,418,639
Furniture and equipment	1,816,626	1,743,971
Computer systems	3,344,056	3,309,080
Arts and others	<u>428,842</u>	<u>428,842</u>
	14,617,047	14,509,416
Accumulated depreciation and amortization	(6,026,201)	(5,612,433)
Land	<u>1,390,000</u>	<u>1,390,000</u>
Property and equipment, net	<u>\$ 9,980,846</u>	<u>\$ 10,286,983</u>

Depreciation expense amounted to \$419,054 and \$431,847 for 2023 and 2022, respectively.

(Continued)

VAPR Federal Credit Union
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(8) Other Assets

The following are the components of other assets:

	As of December 31, 2023	As of December 31, 2022
Prepaid expenses	\$ 224,746	\$ 250,834
Suppliers deposit	56,638	31,025
Prepaid insurance	66,125	54,557
Foreclosed properties	29,536	85,145
Other deposits	61,539	59,624
	\$ 438,584	\$ 481,185

(9) Members' Accounts

Members' shares accounts are summarized as follows:

	Weighted- Average Dividend Rate at December 31, 2023		Member's Accounts Liability Balances as of December 31, 2023		Weighted- Average Dividend Rate at December 31, 2022		Member's Accounts Liability Balances as of December 31, 2022
Share drafts	0.00%	\$	15,584,509		0.00%	\$	15,802,248
Regular shares (excluding escrow shares)	0.03%		139,099,464		0.03%		153,846,786
Share certificates	2.42%		51,853,836		0.37%		27,711,153
Special shares	0.03%		10,354,701		0.03%		11,507,769
Xmas club	0.03%		673,750		0.03%		639,922
Individual retirement accounts	0.57%		10,928,843		0.61%		12,770,208
Total members accounts		\$	228,495,103			\$	222,278,086

As of December 31, 2023 and 2022 the NCUA insured the Credit Union shares members' accounts to at least \$250,000 by individual member account.

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(9) Members' Accounts, Continued

The composition of insured and uninsured members shares and deposits balances are as follows:

		As of December 31, 2023		As of December 31, 2022
Uninsured member shares and deposits	\$	13,246,232	\$	15,040,163
Insured member shares and deposits		215,169,616		207,129,323
Insured escrow		79,255		108,600
Total member accounts	\$	<u>228,495,103</u>	\$	<u>222,278,086</u>

At December 31, 2023, scheduled maturities of share certificates are as follows:

	Year Ending December 31,					
	2024	2025	2026	2027	2028	Total
0.00% - 1.50%	\$ 4,295,668	\$ 314,094	\$ 444,658	\$ 530,437	\$ -	\$ 5,584,857
1.51% - 3.00%	3,852,703	855,306	291,586	1,678,098	1,964,165	8,641,858
3.01% - 4.50%	<u>28,566,230</u>	<u>8,434,655</u>	<u>214,611</u>	<u>33,601</u>	<u>378,024</u>	<u>37,627,121</u>
Total	<u>\$ 36,714,601</u>	<u>\$ 9,604,055</u>	<u>\$ 950,855</u>	<u>\$ 2,242,136</u>	<u>\$ 2,342,189</u>	<u>\$ 51,853,836</u>

Dividends expense on members' shares accounts for the year ended is summarized below:

		As of December 31, 2023		As of December 31, 2022
Shares	\$	54,009	\$	57,256
Individual retirement accounts		67,134		78,865
Share certificates		961,359		101,519
	\$	<u>1,082,502</u>	\$	<u>237,640</u>

(Continued)

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(10) Accruals and Other Liabilities

The composition of the accruals and other liabilities are as follows:

	As of December 31, 2023	As of December 31, 2022
Accounts payable - trade	\$ 337,167	\$ 606,816
Allowance for off balance sheet credit exposures	14,891	-
Other accounts payable	44,759	38,364
Claims in process	29,881	21,754
Insurance payable	25,166	70,087
Payroll and accrued bonus	276,512	205,475
Accrued advertising	5,276	-
Accrued interest	84,652	12,631
Accrued convention expense	39,825	-
Accrued professional services	41,036	41,264
Accrued others	4,825	7,905
	<u>\$ 903,990</u>	<u>\$ 1,004,296</u>

(11) Deferred Compensation Plan

VAPR Federal Credit Union sponsors a defined contribution plan that covers all employees with one (1) year of services and that have attained twenty (21) years old. The plan was effective on January 1, 1998 and amended in 2011. Employees can elect to contribute up to \$15,000 per year of the eligible compensation. The matching of the employee contributions is discretionary. The Credit Union matches up to 8.17% of the employee's contributions.

Under this plan, each employee chooses the investments in which his or her contribution will be invested.

Vesting is accumulated after the second (2nd) year on the plan for a period of five (5) years at 20% per year.

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

During the years ended December 31, 2023 and 2022, the Credit Union contributed \$107,663 and \$99,771, respectively, to the deferred compensation plan.

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(12) NCUSIF Deposit

The deposit in NCUSIF is in accordance with by 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 should 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.

(13) Non-Interest Income

The components of non-interest income for the years ended December 31, 2023 and 2022 are as follows:

	2023	2022
Services charges and late fees	\$ 261,119	\$ 287,482
ATM card fees and charges	558,363	531,427
Master card fees and charges	176,559	156,864
(Loss) on disposition of repossessed assets	(58,627)	(44,727)
Other fees, charges and expenses	903,729	316,866
	\$ 1,841,143	\$ 1,247,912

(14) Non-Interest Expenses by Category

The components of the compensation and benefits expense for the years ended on December 31, 2023, and 2022 follows:

	2023	2022
Salaries and wages	\$ 2,086,219	\$ 1,707,735
Bonus, vacations and sick leave	208,873	193,737
Payroll taxes	194,275	101,350
Retirement plan contributions	107,663	99,771
Medical plan	303,301	257,548
Workmen compensation	19,575	15,321
Other benefits	90,921	54,349
	\$ 3,010,827	\$ 2,429,811

(Continued)

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(14) Non-Interest Expenses by Category, Continued

The components of the other non-interest expense for the years ended on December 31, 2023, and 2022, follows:

	2023	2022
Advertising	\$ 288,206	\$ 224,560
Annual convention	125,000	23,468
Rent	100,925	95,685
Dues and subscriptions	19,490	16,560
Education	17,115	-
Travel & conference	36,948	-
Committee expenses	26,978	9,346
	\$ 614,662	\$ 369,619

(15) Loan Commitments

At December 31, 2023 and 2022, the Credit Union had the following commitments to extend credit with its members:

	2023	2022
Lines of Credit:		
Consumer	\$ 421,205	\$ 520,191
Credit Cards	7,222,779	7,300,799
	\$ 7,643,984	\$ 7,820,990

The 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 the Credit Union has classes of financial instruments.

(Continued)

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(15) Loan Commitments, Continued

The 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. The Credit Union uses the same credit policies in making commitments as it does for on-balance-sheet instruments.

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

Commitments to extend credit are agreements to lend to a member 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. The Credit Union evaluates each member's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Credit Union upon extension of credit, is based on management's credit evaluation of the counterpart.

The estimate of expected credit losses at December 31, 2023 is \$14,891. These estimated credit losses are not recorded as part of the Allowance for Credit Losses, because cash has not yet been disbursed to fund the contractual obligation. This estimate is recorded as a liability in the Balance Sheet. Management should not record an estimate of expected credit losses for off-balance sheet exposures if the Cooperative can unconditionally cancel the financing.

(16) Lines of Credit

The Credit Union has one (1) line of credit facility with the Federal Home Loan Bank and three (3) credit lines facilities with investments services institutions. As of December 31, 2023 and 2022, there were no outstanding balances in the subject lines of credit. The unused amounts are approximately \$45,105,000 and \$41,000,000 for the years ended 2023 and 2022 respectively. Interest is charged when applicable at a variable rate.

(17) Litigation

In the normal course of business, the Credit Union is involved in litigation. Management and legal counsels' opinion is that the aggregate effect of any litigation will not be significant for the financial statements of the Credit Union.

(Continued)

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(18) 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: assets and liabilities fair values are based on quoted prices in active markets for identical assets and liabilities.
- Level 2: assets and liabilities 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 using pricing models and/or discounted cash flow methodologies, as well as financial instruments for which the determination of fair value requires significant management judgment or estimation.

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

	<u>As of December 31, 2023</u>		<u>As of December 31, 2022</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets:				
Cash and cash equivalents	\$ 28,179,144	\$ 28,179,144	\$ 23,752,921	\$ 23,752,921
Certificates of deposits	3,224,000	3,224,000	1,984,000	1,984,000
Investment securities	79,026,376	78,899,446	86,832,943	86,642,762
Loans receivable (net of unamortized deferred origination fees)	127,539,379	127,539,379	114,135,502	114,135,502
Less: allowance for loan losses	(2,345,382)	(2,345,382)	(1,395,422)	(1,395,422)
Accrued interest receivable	746,877	746,877	613,793	613,793
	<u>\$ 236,370,394</u>	<u>\$ 236,243,464</u>	<u>\$ 225,923,737</u>	<u>\$ 225,733,556</u>
Financial Liabilities:				
Members' shares accounts	\$ <u>228,495,103</u>	\$ <u>228,495,103</u>	\$ <u>222,278,086</u>	\$ <u>222,278,086</u>
Off-Balance-Sheet Financial:				
Commitments to extend credit	\$ <u>7,643,984</u>	\$ <u>7,643,984</u>	\$ <u>7,820,990</u>	\$ <u>7,820,990</u>

(Continued)

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(18) Fair Values of Financial Instruments, Continued

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.

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 Receivable

The fair value of the total loan receivable 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.

(Continued)

(18) Fair Values of Financial Instruments, Continued

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.

Commitments to Extend Credit

The fair value of commitments to extend credit was determined using the fees currently charged to enter into similar agreements, considering 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.

(Continued)

VAPR Federal Credit Union
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(18) Fair Values of Financial Instruments, Continued

Fair Value of Financial Instruments Measured on a Recurring Basis

Fair values of assets and liabilities measured on a recurring basis at December 31, 2023 and 2022 are as follows:

	Fair Value Measurement at Reporting Date Using:			
	Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2023</u>				
Available-for-sale securities	\$ <u>72,433,700</u>	\$ <u>72,433,700</u>	\$ <u>-</u>	\$ <u>-</u>
<u>December 31, 2022</u>				
Available-for-sale securities	\$ <u>80,282,482</u>	\$ <u>80,282,482</u>	\$ <u>-</u>	\$ <u>-</u>

(Continued)

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(19) Regulatory Capital

The Credit Union is subject to: (i) a regulatory net worth to total assets ratio, as administered by the NCUA (as defined in the regulations). Failure to meet this ratio 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 31, 2023 and 2022, the Credit Union’s net worth to total assets ratio is categorized as “well capitalized” as per the most recent Call Report. To be categorized as “well capitalized”, the Credit Union must maintain a minimum net worth ratio of 7% of assets and meet any applicable Risk Based Net Worth (RBNW) Requirement. Credit Unions whose net worth ratio falls below 7% will be subject to Prompt Corrective Action requirements.

The Credit Union's net worth ratio at December 31, follows:

	Net Worth Amount	VAPR Actual Net Worth to Total Assets Ratio*	VAPR Category**
2023	\$ 26,741,029	10.74%	well capitalized
2022	\$ 24,575,255	10.28%	well capitalized

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

** There are no conditions or events since the most recent Call Report that management believes have changed the Credit Union's category.

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.

(Continued)

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(20) Commitments

VAPR Federal Credit Union has a license to operate its facilities on the leased premises in the Department of Veterans Affairs. This license is due in 2037 and is renewable if the Credit Union complies with certain conditions.

The Credit Union has a branch facility on the leased premises in Guayama, Puerto Rico. The lease agreement first extension was due in 2022 and was renewed until 2024.

(21) Related Parties Transactions

The employees, management, directors, and supervisory committee of VAPR Federal Credit Union are members of the Credit Union and obtain shares and loans with the same terms as other regular members. The members of the Board of Directors and Supervising Committee obtain no compensation for its services. The aggregate loans on December 31, 2023 and 2022 amounted to \$437,008 and \$454,414 respectively.

Deposits from Credit Union's employees, management, directors and committee members held by the Credit Union on December 31, 2023 and 2022 are not significant.

(22) Subsequent Events

Management has evaluated subsequent events through April 3, 2024, the date the financial statements were available to be issued. No material subsequent events requiring further disclosure have been identified. Based upon this evaluation the Credit Union, has determined there were no material events to, or disclosure in the financial statements through such date.

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