

COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
AUDITED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2022 AND 2021



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Society

The Institute for
Internal Controls

Board of Directors
Cooperativa de Ahorro y Crédito
Jesús Obrero
Guaynabo, Puerto Rico

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

I have audited the accompanying financial statements of Cooperativa de Ahorro y Crédito Jesús Obrero (the Credit Union), which comprise the balance sheets as of as of December 31, 2022 and 2021, and the related statements of income and expenses, changes in member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Unqualified Opinion on the Regulatory Basis of Accounting

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cooperativa de Ahorro y Crédito Jesús Obrero as of December 31, 2022 and 2021, and the results of its operations, changes in member's equity and its cash flows for the years then ended in accordance with the provisions of the statutory basis of accounting described in Note 1 to the financial statements.

Adverse Opinion on Generally Accepted Accounting Principles in the United States of America

In my opinion, because of the significance of the matter discussed in the Basis for Adverse opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the financial statements described in the first paragraph of this report do not present fairly, in all material respects, the financial position of Cooperativa de Ahorro y Crédito Jesús Obrero as of December 31, 2022 and the results of its operations, changes in members' equity, and its cash flows for the year then ended in accordance with Accounting Principles Generally Accepted in the United States of America.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted (GAAS) in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent from the Credit Union as of December 31, 2022 and 2021 and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Adverse Opinion on Generally Accepted Accounting Principles in the United States of America

As described in Note 1, the Credit Union prepares its financial statements in accordance with statutory accounting principles required by its regulatory entity named *Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico* (COSSEC, its acronym in Spanish).

These accounting principles differ in some respects from generally accepted accounting principles used in United States of America and Puerto Rico. The main difference is related to the financial presentation of members' shares which are included as part of members' equity. According to GAAP these shares are similar to deposit accounts, therefore, their presentation must be included as part of the Credit Union's liabilities. If members' shares were presented in accordance with GAAP, total assets would have decreased by \$1,085,618, while total liabilities would have increased by \$15,938,128, and members' participation would have decreased by \$17,023,746 as of December 31, 2022. Also, net income would have increased by \$464,279 as of December 31, 2022.

As explained in Note 1 of these financial statements, the Credit Union adopted the new requirements of the Act No. 220 of December 15, 2015 and reclassified investments in securities of the Commonwealth of Puerto Rico as Special Investments, at amortized cost, regardless of their accounting classification. In addition, the Act provides that, in determining a non-temporary loss on these investments, it is amortized over a period not exceeding fifteen (15) years. Amortization expense for these investments for the year ended December 31, 2022 amounted to \$361,872, and the remaining unamortized balance was \$1,085,618. If these items had been classified in accordance with accounting principles generally accepted in the United States of America and Puerto Rico, net income would have increased by \$464,279 for a total net income of \$1,222,090, as of December 31, 2022.

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 as a whole, that raise substantial doubt about the Credit Union's ability to continue as a going concern within one (1) year after the date that the financial statements are available to be issued.



Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in 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, I:

- 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 Cooperativa de Ahorro y Crédito Jesús Obrero'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Cooperativa de Ahorro y Crédito Jesús Obrero's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those in-charge of the Credit Union's governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.



Emphasis of Matter

The financial statements of the Cooperative at December 31, 2021 were audited by another auditor, whose report dated April 19, 2022, issued an adverse opinion in accordance with Generally Accepted Accounting Principles in the United States of America and Puerto Rico. The information for that year is presented for comparative purposes only and some items were reclassified for comparative purposes of presentation, which caused changes in financial position and the results of its activities presented for that year.

Supplementary Information

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The statements of operations and computation of adjusted net worth and liquidity requirements presented on pages 35 to 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in my opinion, with the exception of the effects caused by the difference in the accounting practices accepted by the regulatory agencies, with the generally accepted accounting principles, is fairly stated in all material respects in relation to the financial statements taken as a whole in accordance with GAAP in the United States of America and Puerto Rico.



April 14, 2023
Guaynabo, Puerto Rico

License Num. 4290
Expiration date December 1, 2025

Stamp #E517232 from the
Puerto Rico Society of CPA's
was affixed to the original.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
BALANCE SHEETS
DECEMBER 31, 2022 AND 2021

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
LOANS RECEIVABLE , net of provision for uncollectible loans (Notes 1 and 3)	\$ 65,780,844	\$ 58,235,149
CASH IN HAND AND IN BANKS (NOTES 1 AND 2):	5,930,040	10,682,680
CERTIFICATES OF DEPOSIT (Maturity in three months or less) (Note 2)	1,615,000	2,365,000
INVESTEMENTS (NOTES 1 AND 5):		
Investments in securities classified as available for sale	25,635,715	30,154,244
Cooperative entities	1,955,139	1,873,418
	<u>27,590,854</u>	<u>32,027,662</u>
PROPERTY AND EQUIPMENT, NET (NOTES 1 AND 6)	2,743,436	2,698,690
OTHER ASSETS:		
Interest receivable	376,665	452,723
Accounts receivable	193,164	22,996
Loss under special amortization	1,085,618	1,447,491
Prepaid expenses	279,648	345,130
Other (Note 10)	1,576,065	892,940
	<u>3,511,160</u>	<u>3,161,280</u>
Total assets	<u>\$ 107,171,334</u>	<u>\$ 109,170,461</u>
<u>LIABILITIES AND MEMBERS' EQUITY</u>		
<u>LIABILITIES</u>		
DEPOSITS (NOTE 4):		
Savings accounts	\$ 56,040,095	\$ 54,459,196
Share draft accounts	6,351,141	5,172,531
Certificates of deposits	24,696,608	24,805,178
Christmas and Summers savings plan	1,200,770	1,203,340
Total deposits	88,288,614	85,640,245
ACCOUNTS PAYABLE AND ACCRUED EXPENSES (NOTE 11)	923,237	1,132,189
Total liabilities	<u>89,211,851</u>	<u>86,772,434</u>
<u>MEMBERS' EQUITY (NOTE 1)</u>		
Shares, par value \$10	15,838,127	15,112,106
Capital obligations	450,000	200,000
Indivisible capital	2,005,000	1,966,264
Contingency and institutional development reserve	4,351,799	3,827,817
Special temporary reserve	1,649,898	1,649,898
Social capital reserve	412,907	232,675
Reserve Circular Letter 2021-02	156,000	79,956
Redemption fund	135,714	66,666
Accumulated comprehensive net loss	(7,089,962)	(837,355)
Undistributed earnings	50,000	100,000
Total Members' Equity	<u>17,959,483</u>	<u>22,398,027</u>
Total Liabilities and Members' Equity	<u>\$ 107,171,334</u>	<u>\$ 109,170,461</u>

The accompanying notes are an integral part of these statements.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENTS OF INCOME AND EXPENSES
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
INTEREST INCOME:		
Loans	\$ 4,515,390	\$ 4,313,500
Certificates and savings accounts	49,748	30,028
Investments	601,303	478,960
	<u>5,166,441</u>	<u>4,822,488</u>
INTEREST EXPENSE:		
Deposits	349,190	286,648
Certificates of deposits	235,870	265,987
Capital obligations	10,205	10,000
	<u>595,265</u>	<u>562,635</u>
NET INTEREST INCOME BEFORE PROVISION FOR UNCOLLECTIBLE LOANS	4,571,176	4,259,853
PROVISION FOR UNCOLLECTIBLE LOANS	<u>175,000</u>	<u>445,000</u>
NET INTEREST INCOME AFTER PROVISION FOR UNCOLLECTIBLE LOANS	<u>4,396,176</u>	<u>3,814,853</u>
OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and related expenses	1,537,836	1,345,696
Professional services	501,621	590,471
Promotion and cooperative education	121,602	167,042
Facilities, equipment and maintenance	779,492	685,639
Effects and other office expenses	151,958	139,358
Insurances and bonds	474,889	481,943
Assembly	43,526	13,204
Board of Directors and Committees expenses	3,360	4,007
Other and Miscellaneous	356,336	473,647
	<u>3,970,620</u>	<u>3,901,007</u>
TOTAL OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>3,970,620</u>	<u>3,901,007</u>
NET INCOME / (LOSS) FROM OPERATIONS	425,556	(86,154)
OTHER INCOME / (EXPENSES):		
Money orders, mortgages and services commissions	152,397	326,116
MasterCard expenses– net	191,098	214,178
ATM income, net	118,297	139,656
Loss under special amortization	(361,872)	(361,872)
Grants from CDFI funds	-	1,890,715
Share Draft, net	(25,798)	(16,503)
Other income	258,133	583,448
	<u>332,255</u>	<u>2,775,738</u>
TOTAL OF OTHER INCOME	<u>332,255</u>	<u>2,775,738</u>
NET INCOME	<u>\$ 757,811</u>	<u>\$ 2,689,584</u>



The accompanying notes are an integral part of these statements.

COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>Shares</u>	<u>Capital Obligations</u>	<u>Indivisible Capital Reserve</u>	<u>Special Temporary Reserve</u>	<u>Contingencies Reserve</u>	<u>Comprehensive Accrued Net Gain (Loss)</u>	<u>Redemptio n Fund</u>	<u>Social Capital Reserve</u>	<u>Reserve Circular Letter 2021- 02</u>	<u>Undistributed Earnings</u>	<u>Total</u>
BALANCE DECEMBER 31, 2020	\$ 14,183,224	\$ 200,000	\$ 1,926,286	\$ 1,649,898	\$ 1,391,502	\$ 132,141	\$ 33,333	\$ 190,600	\$ -	-	\$ 19,706,984
Additional investments by members	2,586,921	-	-	-	-	-	-	-	-	-	2,586,921
Withdrawals by members	(1,658,039)	-	-	-	-	-	-	-	-	-	(1,658,039)
Transfer to indivisible capital	-	-	39,978	-	-	-	-	-	-	(39,978)	-
Transfer to reserves	-	-	-	-	2,436,315	-	33,333	-	79,956	(2,549,606)	(2)
Transfer due to inactive accounts	-	-	-	-	-	-	-	42,075	-	-	42,075
Changes in securities valuation	-	-	-	-	-	(969,496)	-	-	-	-	(969,496)
Net income for the year	-	-	-	-	-	-	-	-	-	2,689,584	2,689,584
BALANCE DECEMBER 31, 2021	15,112,106	200,000	1,966,264	1,649,898	3,827,817	(837,355)	66,666	232,675	79,956	100,000	22,398,027
Additional investments by members	2,844,040	-	-	-	-	-	-	-	-	-	2,844,040
Withdrawals by members	(2,218,020)	-	-	-	-	-	-	-	-	-	(2,218,020)
Transfer to indivisible capital	-	-	38,736	-	-	-	-	-	-	(38,736)	-
Transfer to reserves	-	-	-	-	523,982	-	69,048	-	76,044	(669,074)	-
Transfer due to inactive accounts	-	-	-	-	-	-	-	180,232	-	-	180,232
Changes in securities valuation	-	-	-	-	-	(6,252,607)	-	-	-	-	(6,252,607)
Capitalized dividends	100,001	-	-	-	-	-	-	-	-	(100,001)	-
Issuance of capital obligations	-	250,000	-	-	-	-	-	-	-	-	250,000
Net income for the year	-	-	-	-	-	-	-	-	-	757,811	757,811
BALANCE DECEMBER 31, 2022	<u>\$ 15,838,127</u>	<u>\$ 450,000</u>	<u>\$ 2,005,000</u>	<u>\$ 1,649,898</u>	<u>\$ 4,351,799</u>	<u>(\$ 7,089,962)</u>	<u>\$ 135,714</u>	<u>\$ 412,907</u>	<u>\$ 156,000</u>	<u>\$ 50,000</u>	<u>\$ 17,959,483</u>



The accompanying notes are an integral part of these statements.

COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 757,811	\$ 2,689,584
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	279,667	253,882
Allowance for uncollectible accounts	175,000	445,000
(Increase) / Decrease in other assets	(711,753)	729,455
Decrease in accounts payable and accrued expenses	<u>(28,720)</u>	<u>(450,411)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>472,005</u>	<u>3,667,510</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans	(7,720,695)	(3,388,652)
Increase) in certificates of deposit (maturity over three (3) months)	750,000	-
Increase in investments in other cooperatives	(81,721)	(180,102)
Increase in marketable securities	(1,372,205)	(3,331,539)
Investment in property and equipment	<u>(324,413)</u>	<u>(409,347)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(8,749,034)</u>	<u>(7,309,640)</u>

The accompanying notes are an integral part of these statements.



(Continues)

COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	2,648,369	6,975,565
Shares acquired by members	2,844,040	2,586,921
Issuance of capital obligations	250,000	-
Shares redeemed by members	<u>(2,218,020)</u>	<u>(1,658,039)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>3,524,389</u>	<u>7,904,447</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(4,752,640)	4,262,317
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>10,682,680</u>	<u>6,420,363</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 5,930,040</u>	<u>\$ 10,682,680</u>
SUPPLEMENTARY INFORMATION:		
Interest payments	<u>\$ 155,270</u>	<u>\$ 263,730</u>
SUPPLEMENTARY INFORMATION ON INVESTMENT AND FINANCING ACTIVITIES THAT DO NOT AFFECT CASH:		
Transfer from inactive accounts to reserve	<u>\$ 180,232</u>	<u>\$ 42,075</u>
Transfer from net income to indivisible capital reserve	<u>\$ 38,736</u>	<u>\$ 39,978</u>
Transfer from net income to reserves	<u>\$ 669,075</u>	<u>\$ 2,549,606</u>



The accompanying notes are an integral part of these statements.

COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS

Organization

The Credit Union was created in conformity with the Credit Union Law, as amended. The Credit Union is also regulated by Law No. 255 of October 28, 2002, as amended and by the Corporation for the Supervision and Insurance of Puerto Rico Credit Unions (COSSEC, its acronym in Spanish). This Credit Union is dedicated primarily to receiving savings in the form of shares and deposits from its members and provides to them a lending source at the lowest possible cost.

Interest Income and Expenses

The interest income realized from loans, is calculated over the principal balance owed (accrual method). Interest is accrued on loans that do not exceed ninety (90) days past due. Other income or expenses are recorded at the time they are generated or incurred.

Members' Shares

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual assembly elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one (1) vote. Members' shares are subordinate to all other liabilities of the Credit Union upon liquidation. Dividends on member's shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Provision for Loan Losses and Uncollectible Accounts

For the establishment of the loans reserve, the Credit Union adopted the parameters established in the accounting rules for the credit unions of June 2002, issued by COSSEC.

The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries).

Investments in Cooperative Entities

The investment value represents the original cost of the investment plus the capitalized dividends, less withdrawals.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

**1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Investments in Securities

Investments that the Credit Union has both the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Investments that the Credit Union intends to hold for an indefinite period of time, but not necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sales have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair values of individual held-to-maturity and available-for-sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair values. Factors affecting the determination of whether another than temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value.

Property, Equipment and Depreciation

Building and improvements, furniture and fixtures and vehicles are carried at cost. Depreciation is determined using the straight-line method over the estimated useful life of the assets.

Foreclosed Properties

At the time foreclosure, the foreclosed property is recorded at the lower of the carrying amount or fair market value. Any losses incurred by the acquisition, gains or losses realized after the sale, maintenance costs and estimated losses are registered as part of current operations.

Standards of Accounting that Differ from Generally Accepted Accounting Principles (GAAP) in the United States of America

The Credit Union realizes origination costs on mortgage loans as income and mortgage department costs as expense. Accounting principles require that this income and expense be amortized to operations for a determined period of time. The management estimates that the adoption of this accounting principle will not have a significant effect on the financial statement.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

**1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

The Savings and Loan Cooperatives in Puerto Rico present members' shares in the section of members' equity of the balance sheet. Accounting principles require that the shares be presented in the members' deposits section of the balance sheet.

On the other hand, the Credit Unions recognize net income distribution by means of a charge to accumulated benefits, and accounting principles require that such distributions are recognized as interest expense. Also, Law No. 255, of October 28, 2002 allows the creation of net income reserves, subsequently charging against that reserve until it is spent (expended), all or in part. Accounting principles require that any provision is recognized with a charge against operations in the year the reserve is needed.

Use of Estimates in the Preparation of the Financial Statements

Management uses estimates and assumptions in the preparation of the financial statements, as allowed by generally accepted accounting principles (GAAP) in the United States of America. These estimates and assumptions 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. Actual results could differ from those estimates.

Market Value of Financial Instruments

The book values of the financial instruments, including cash and cash equivalents, loans, interest receivables, deposits, shares and investments in other cooperatives entities, such as COSSEC, approximate those assets' fair values.

Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, committees' members, executive officers and employees. The aggregate loans amount to related parties on December 31, 2022 was \$1,018,601.

Direct Loan Origination Cost

Direct costs and revenues to originate loans are deferred and amortized to interest income, usually to contractual life of the loans, using the "Interest Method", in accordance with the provisions of Accounting Standard Codification ASC 310-20 (formerly SFAS No. 91), *Fees and Other Costs not Refundable*.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

**1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Net Income Participation

Every Credit Union, with prior recommendation of its Board of Directors, will distribute to its members the net income at the end of the year, after the corresponding appropriations have been made for accrued losses amortization, indivisible capital as required by Law No. 255 and the provisions for uncollectible accounts, statutory and voluntary reserves, as per Article 6.07 of such Act. The Credit Union cannot distribute its net income as long as it has accrued losses.

As per Law No. 255, all dividend distributions will be credit towards the members accounts as shares, and never as a cash distribution. This net income can be distributed on the basis of dividends on share paid and not withdrawn at the end of the fiscal year and the reimbursement or return based on the sponsorship of interest received.

Cash and Cash equivalents

The Credit Union considers short-term highly liquid cash investment purchased with an original maturity of three (3) months or less to be cash equivalents.

Law 220 of December 15, 2017, Accounting requirements to Special Investments

On December 15, 2017, Law 220 was approved to add to the Law 255, as amended, a chapter entitled, accounting requirements to special investment. The law requires that Credit Unions classify all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA) acquired on or before March 31, 2015 as special investments (securities). The Law requires special investments to be recorded at its amortized cost regardless of their classification as either available for sale or held to maturity in the financial statements, plus unrealized losses, if any, will not be presented. Any loss attributable to these special investments in the provision, withholding or anything related to the application of a statement of generally accepted accounting principles may be amortized over a period not exceeding fifteen (15) years, and should be classified as losses under special amortization.

The Law also requires a note to the financial statements with the specific language. The Law also requests the creation of a special temporary reserve of ten percent (10%) of the unrealized loss of these special investments plus other minimum contributions to the temporary reserve or to indivisible capital reserve, which may vary from five percent (5%) to one hundred percent (100%) of surplus, subject to the indivisible capital levels and the composite index of the Credit Union's CAEL. The Law also requires considering the annual amortization of the special investments when computing the CAEL indexes. It also allows for voluntary transfer of uncommitted reserves by the Credit Union to a special temporary reserve and release temporary excess reserves in excess of the special amortized losses to the indivisible capital, voluntary reserves and operating income.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

**1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Regulations

The Credit Union's regulatory entity is the Corporation for the Supervision and Insurance of Puerto Rico Credit Unions (COSSEC, its acronym in Spanish), as established by Law No. 114 of August 2001, which provides among others things, the following:

- a. As of the first day of the month following the approval of this law, the maximum insured amount of shares and deposits combined, per member or depositor will be two hundred fifty thousand dollars (\$250,000).
- b. COSSEC is required to establish and put in effect the increase in the established maximum insurance coverage limits, on the dates specified in this Article. Notwithstanding, the Board has the power no to put the increase in effect, when share and deposit insurance is experiencing loss, when the economic condition of the Corporation or determinations by the actuaries' accepted by the Board, indicate that the increase should not be decreed until circumstances impeding its effectiveness are overcome.
- c. Every Credit Union insured must maintain with the Corporation, as capital contribution, an amount equal to one percent (1%) if its shares held as of June 30th of each operational year, as declared in the certified statement of shares and deposits in the certified financial statements required by this law. The Corporation will establish standards and procedures to determine yearly, the amount that should be held by each insured Cooperative as capital contribution, depending on their shares and deposits. Regulations and procedures will also be established to determine the annual increase that should be required in the payment of capital contribution by means of increased insured shares and deposits.
- d. When the sum of unrestricted reserves, not compromised for the payment of losses and total capital of the Corporation, exceeds two percent (2%) of the total insured shares and deposits, the Corporation will use this excess to pay capital interest. This interest is determined based on the average return of the total shares of the Corporation for the period of twelve (12) months before the date payment was made, less one percent (1%).
- e. Each Credit Union pays an annual premium between .17% and .49% of the total shares and deposits as of June 30th of each year, depending on the CAEL classification determined by COSSEC.

As of December 31, 2022 the Credit Union paid a total investment of \$1,032,722 and an annual premium of \$239,967.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

**1. ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Income Taxes

Tax Exemption

Article 6.09 - Tax exemption, Law No. 255

The Credit Unions' and its subsidiaries are exempt as follows:

- a. From payment of income tax.
- b. From payment of taxes and excise tax on share issued.
- c. From payment of duties, excise taxes and state or municipal tariffs, including license payment, warrants, permits and registry, such as tariffs for the issuance of all documents, inscription of said documents in the Property Registry and the expedition of certifications for said registry or any other government office.
- d. From payment of all taxation on interest and surplus that Credit Unions and other Cooperative Entities distribute to members or their beneficiaries or heirs.
- e. From payment of municipal patents.
- f. Property taxes.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

2. RESTRICTED CASH

The Law No. 255 of October 28, 2002, of the Associations of Savings and Loans Credit Unions, requires that:

- a. Thirty five percent (35%) of the indivisible capital must be maintained in liquid assets.
- b. Fifteen percent (15%) of the deposits will be maintained in liquid funds.
- c. Fifteen percent (15%) of the total of certificates will be maintained in liquid funds, excluding those with maturity within thirty (30) days, in which case twenty-five will be maintained. Collateralized certificates will not be maintained as liquid funds.
- d. 8.33% monthly will be maintained in liquid funds for determined events accumulating up to one hundred percent (100%), in the month before it is returned.

As result of the requirements of the Law mentioned above, the Credit Union held, at December 31, 2022 and 2021, the amount of \$4,672,924 and \$3,299,909 respectively in certificates, savings accounts and investment securities that are not available to be used in current and normal operations, as follows:

	<u>2022</u>	<u>2021</u>
<u>Liquidity Required</u>		
Indivisible capital reserve (35%)	\$ 701,750	\$ 688,192
Deposits on demand, net of pledged deposits (15%)	8,657,747	8,449,773
Certificates of deposits, net of crossed Investments with maturities of:		
- in 30 days or less (25%)	636,631	811,355
- over 30 days (15%)	3,322,513	3,233,964
Redemption fund	135,714	66,666
Deposits for determined events:		
Christmas-Coop (8.33% x 3 months)	130,734	108,051
Tax-Coop (8.33% x 10 months)	586	1,289
Summer-Coop (8.33% x 2 months)	451,420	513,059
Total required liquidity	<u>14,037,095</u>	<u>13,872,349</u>
<u>Liquidity Available</u>		
Liquids funds available:		
Certificates of deposits	1,615,000	2,365,000
Cash and checking accounts	5,930,040	10,682,680
Investments in securities at market value	25,635,715	30,154,244
Interest receivable	87,040	101,309
Total available liquidity	<u>33,267,795</u>	<u>43,303,233</u>
Excess of liquid funds over those required by law	<u>\$ 19,230,700</u>	<u>\$ 29,430,884</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS

The loan portfolio consists of the following types at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
<u>Commercial:</u>		
Corporate	\$ 11,661,656	\$ 10,338,377
Total commercial	<u>11,661,656</u>	<u>10,338,377</u>
<u>Consumers:</u>		
Personal	15,278,311	12,502,601
Mortgages	13,123,471	12,432,201
Auto	13,467,779	11,556,180
Guaranteed	4,823,432	4,281,367
Solar panels	4,377,764	3,049,063
Credit cards	2,238,717	2,246,527
Cemetery plots	1,711,471	2,388,211
Other	<u>1,342,717</u>	<u>1,547,689</u>
Total consumers	<u>56,363,662</u>	<u>50,003,839</u>
Total loans	68,025,318	60,342,216
Add: direct loan origination cost capitalized	(144,624)	(117,753)
Less: allowance for uncollectible loans (Note 1)	<u>(2,099,850)</u>	<u>(1,989,314)</u>
Total loans, net	<u>\$ 65,780,844</u>	<u>\$ 58,235,149</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

The change in the provision for uncollectible loans is disclosed as follows:

<u>December 31, 2022</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Balance, beginning of year	\$ 490,039	\$ 1,499,275	\$ 1,989,314
Allowance for loans losses	-	175,000	175,000
Loans charged off	-	(101,424)	(101,424)
Recoveries	-	36,960	36,960
Balance, end of year	<u>\$ 490,039</u>	<u>\$ 1,609,811</u>	<u>\$ 2,099,850</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 962,069</u>	<u>\$ 962,069</u>
<u>December 31, 2021</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Balance, beginning of year	\$ 490,039	\$ 1,272,046	\$ 1,762,085
Allowance for loans losses	-	445,000	445,000
Loans charged off	-	(270,798)	(270,798)
Recoveries	-	53,027	53,027
Balance, end of year	<u>\$ 490,039</u>	<u>\$ 1,499,275</u>	<u>\$ 1,989,314</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 654,976</u>	<u>\$ 654,976</u>

CREDIT RISK GRADING COMERCIAL LOANS

Commercial loans are evaluated for possible losses, classifying each loan using various risk factors identified by the periodic review thereof. At December 31, 2022 and 2021, commercial loans were individually evaluated for impairment. The methodology contemplated the present value of future cash flows discounted at the loan's effective rate or the comparison of the fair market value of the collateral less costs to sell. In addition to reviewing the risk of concentration of commercial loans, the Cooperative implemented a process of quality assessment of commercial credit. For commercial loans, management conducted an assessment of individual risk considering the probability of repayment and collateral quality. The Credit Union used the following classifications to assess their risk in the portfolio:

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



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

CREDIT RISK GRADING COMERCIAL LOANS (CONTINUED)

Special mention: The loan has a proper collateral but has the potential for deterioration. The debtor's financial position is deteriorating and is lacking in cash flow, causing possible default on payments. Other features typical of this classification, have no recent financial information, low capitalization, industry risks. The primary source of repayment is still good, but there is a possibility of using the collateral or exercise recovery by the co-signer to repay the debt. Although this type of loan is current and the recovery is understood not in doubt, the frequency of the payments could be affected.

Substandard: The loan does not have adequate safeguards due to the deterioration of the market value of the property and low profitability. The member has a poor financial condition which affects loan repayment. There is a high probability that the Cooperative may not get back the entire loan. Loans in this category are considered to be impaired and do not accrue interest.

Doubtful: The loan has the shortcomings of those presented in the category of "low standard". In addition, the collectability of the loan part or all is highly unlikely, and the possibility of loss is extremely high. At this level there may be some specific conditions that may enhance the likelihood of repayment of the loan. These conditions include an additional capital contribution, new collateral, and refinancing or liquidation proceedings. The loan has not been lost until assessing the effect of the specific conditions listed above. Loans in this category are considered to be impaired and do not accrue interest.

Below is commercials loan portfolio by risk category at December 31, 2022 and 2021:

December 31, 2022	Pass	Special mention	Substandard	Total
Corporate	\$ 11,577,399	\$ -	\$ 84,257	\$ 11,661,656
Total commercial	<u>\$ 11,577,399</u>	<u>\$ -</u>	<u>\$ 84,257</u>	<u>\$ 11,661,656</u>
December 31, 2021	Pass	Special mention	Substandard	Total
Corporate	\$ 10,217,121	\$ -	\$ 121,256	\$ 10,338,377
Total commercial	<u>\$ 10,217,121</u>	<u>\$ -</u>	<u>\$ 121,256</u>	<u>\$ 10,338,377</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

CREDIT RISK GRADING COMERCIAL LOANS (CONTINUED)

The Credit Union monitors the aging of its commercial portfolio in order to manage credit risk. Below are the categories of aging commercial portfolio on December 31, 2022 and 2021:

	Days past due			Total Past due	Current	Total Loans	90 or less accruing	90 or more accruing
	61 – 180	181 – 360	360 or more					
December 31, 2022								
Corporate	\$ -	\$ -	\$84,257	\$84,257	\$11,577,399	\$11,661,656	\$11,577,399	\$84,257
Total commercial	\$ -	\$ -	\$84,257	\$84,257	\$11,577,399	\$11,661,656	\$11,577,399	\$84,257
	Days past due			Total Past due	Current	Total Loans	90 or less accruing	90 or more accruing
	61 – 180	181 – 360	360 or more					
December 31, 2021								
Corporate	\$ -	-	\$121,256	\$121,256	\$10,217,121	\$10,338,377	\$10,217,121	\$121,256
Total commercial	\$ -	\$ -	\$121,256	\$121,256	\$10,217,121	\$10,338,377	\$10,217,121	\$121,256

CREDIT RISK GRADING CONSUMERS LOAN

The Credit Union has several types of consumer loans which have different credit risks. Delinquencies, the credit score value of the loan and the collateral are quality indicators and the Credit Union monitors used in the evaluation of loan loss provision in its consumer loan portfolio.

The main factor in the evaluation of the provision for loan losses in the consumer portfolio, delinquency is presenting the portfolio. Under Regulation 8665 of November 20, 2015, the percentage method allocates the risk of product consumption by aging.

Below are aging categories of consumer loans at December 31, 2022 and 2021:

	Days past due			Total Past Due	Current	Total Loans	90 or more non-accruing
	61 – 180	181 – 360	360 or More				
December 31, 2022							
Personal	\$ 134,334	\$ 105,965	\$ 1,514	\$ 241,813	\$ 15,036,498	\$ 15,278,311	\$ 178,399
Mortgages	-	-	-	-	13,123,471	13,123,471	-
Auto	289,871	51,752	123,852	465,475	13,002,304	13,467,779	264,372
Guaranteed	1,350	-	-	1,350	4,822,082	4,823,432	-
Solar panels	17,444	13,196	66,333	96,973	4,280,791	4,377,764	79,529
Credit cards	22,275	22,364	79	44,718	2,193,999	2,238,717	36,982
Cemetery plots	2,575	8,292	-	10,867	1,700,604	1,711,471	8,292
Other	-	-	16,616	16,616	1,326,101	1,342,717	291
Total loans	\$ 467,849	\$ 201,569	\$ 208,394	\$ 877,812	\$ 55,485,850	\$ 56,363,662	\$ 567,865



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

CREDIT RISK GRADING CONSUMERS LOANS (CONTINUED)

December 31, 2021	Days past due			Total Past Due	Current	Total Loans	90 or more non- accruing
	61 - 180	181 - 360	360 or More				
Personal	\$ 49,800	\$ 65,198	\$ 66,193	\$ 181,191	\$ 23,587,740	\$ 23,768,931	\$ 181,191
Mortgages	-	-	265,183	265,183	12,167,018	12,432,201	265,183
Auto	28,958	19,853	145,958	194,769	11,361,411	11,556,180	194,769
Credit cards	13,833	-	-	13,833	2,232,694	2,246,527	13,833
Total loans	<u>\$ 92,591</u>	<u>\$ 85,051</u>	<u>\$ 477,334</u>	<u>\$ 654,976</u>	<u>\$ 49,348,863</u>	<u>\$ 50,003,839</u>	<u>\$ 654,976</u>

Below are the types of loans that compose consumer loans ranked by credit scores at the time of granting at December 31, 2022 and 2021:

December 31, 2022	Credit Score				
	< 549	550 – 629	630 – 689	690-749	750 +
Personal	\$ 766,307	\$ 3,382,536	\$ 5,989,125	\$ 8,551,667	\$ 8,844,060
Mortgages	270,307	1,617,060	3,472,652	3,771,016	3,992,436
Auto	391,525	1,959,821	3,126,639	4,103,968	3,885,826
Credit cards	73,480	461,968	508,103	516,037	679,129
Total loans	<u>\$ 1,501,619</u>	<u>\$ 7,421,385</u>	<u>\$ 13,096,519</u>	<u>\$ 16,942,688</u>	<u>\$ 17,401,451</u>

December 31, 2021	Credit Score				
	< 549	550 – 629	630 – 689	690-749	750 +
Personal	\$ 573,717	\$ 3,987,636	\$ 5,764,061	\$ 7,156,930	\$ 6,286,587
Mortgages	305,194	1,861,372	3,014,859	3,764,626	3,486,150
Auto	323,573	1,899,836	2,772,328	3,514,234	3,046,209
Credit cards	62,903	369,329	538,942	644,559	630,794
Total loans	<u>\$ 1,265,387</u>	<u>\$ 8,118,173</u>	<u>\$ 12,090,190</u>	<u>\$ 15,080,349</u>	<u>\$ 13,449,740</u>

Loan to value (LTV) is the ratio that compares the principal balance of the value of the collateral at the time of granting. Below is the distribution of the mortgage loan portfolio according to the proportion above. In recent years, the real estate market has experienced lower residential property values in them. The proportion of loans to value does not necessarily reflect the repayment enforceable in the same but provides an indicator of the value of the collateral and exposure of the Cooperative. In the event that the loan cannot be recovered, the loss would assume the cooperative is limited to the excess of the net realizable value of the property compared to the loan balance. The loan to value at December 31, 2022 and 2021:

December 31, 2022	Balance of Loan to Value (LTV)				Total
	0 – 80%	81% – 90%	90% – 100%	> 100%	
Mortgages	\$ 11,632,487	\$ 624,034	\$ 866,950	\$ -	\$ 13,123,471
Total loans	<u>\$ 11,632,487</u>	<u>\$ 624,034</u>	<u>\$ 866,950</u>	<u>\$ -</u>	<u>\$ 13,123,471</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

<u>December 31, 2021</u>	<u>Balance of Loan to Value (LTV)</u>				<u>Total</u>
	<u>0 – 80%</u>	<u>81% – 90%</u>	<u>90% – 100%</u>	<u>> 100%</u>	
Mortgages	<u>\$ 11,418,239</u>	<u>\$ 676,827</u>	<u>\$ 337,135</u>	<u>\$ -</u>	<u>\$ 12,432,201</u>
Total loans	<u>\$ 11,418,239</u>	<u>\$ 676,827</u>	<u>\$ 337,135</u>	<u>\$ -</u>	<u>\$ 12,432,201</u>

DELINQUENT LOANS

Below is the portfolio of delinquent loans by type of loan and the allocated reserve at December 31, 2022 and 2021:

<u>December 31, 2022</u>	<u>Principal Balance Unpaid</u>	<u>Allocated Reserve</u>
<u>Commercial:</u>		
Commercial	<u>\$ 84,257</u>	<u>\$ 84,257</u>
Total commercial	<u>\$ 84,257</u>	<u>\$ 84,257</u>
<u>Consumer:</u>		
Personal	241,813	122,237
Mortgages		
Auto	465,475	223,265
Guaranteed	1,350	23
Solar panels	96,973	89,253
Credit cards	44,718	15,716
Cemetery plots	10,867	9,936
Other	16,616	16,325
Total consumer	<u>877,812</u>	<u>476,755</u>
Total delinquent loans	<u>\$ 962,069</u>	<u>\$ 561,012</u>
<u>December 31, 2022</u>	<u>Principal Balance Unpaid</u>	<u>Allocated Reserve</u>
<u>Commercial:</u>		
Commercial	<u>\$ 121,256</u>	<u>\$ 41,937</u>
Total commercial	<u>121,256</u>	<u>41,937</u>
<u>Consumer:</u>		
Personal	181,191	102,932
Mortgages	265,183	34,093
Auto	194,769	156,153
Credit cards	13,833	2,767
Total consumer	<u>654,976</u>	<u>295,945</u>
Total delinquent loans	<u>\$ 776,232</u>	<u>\$ 337,882</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

3. LOANS AND PROVISION FOR UNCOLLECTIBLE LOANS (CONTINUED)

Below is the summary of loans modified and classified as restructured and those restructured that after granting entered in delinquencies for the years ended December 31, 2022 and 2021:

	Loans restructured			Past due restructured loans		
	Number of loans	Principal Balance	Allocated Reserve	Number of loans	Principal Balance	Allocated Reserve
December 31, 2022						
Personal	40	\$ 336,007	\$ 68,941	2	\$ 26,797	\$ 7,099
Mortgages	8	1,244,901	186,064	-	-	-
Total loans	48	\$ 1,580,908	\$ 255,005	2	\$ 26,797	\$ 7,099
	Loans restructured			Past due restructured loans		
	Number of loans	Principal Balance	Allocated Reserve	Number of loans	Principal Balance	Allocated Reserve
December 31, 2021						
Personal	43	\$ 274,587	\$ 60,120	1	\$ 17,341	\$ 8,670
Mortgages	9	1,532,412	230,157	1	265,183	34,093
Total loans	52	\$ 1,806,999	\$ 290,277	2	\$ 282,524	\$ 42,763

Following is a summary of the type of concession granted to restructured loans for the years ended December 31, 2022 and 2021:

	Expiration Date and Interest Rate	Principal Reduction	Other	Totals
December 31, 2022				
Personal	\$ 336,007	\$ -	\$ -	\$ 336,007
Mortgages	1,244,901	-	-	1,244,901
Total loans	\$ 1,580,908	\$ -	\$ -	\$ 1,580,908
	Expiration Date and Interest Rate	Principal Reduction	Other	Totals
December 31, 2021				
Personal	\$ 274,587	\$ -	\$ -	\$ 274,587
Mortgages	1,532,412	-	-	1,532,412
Total loans	\$ 1,806,999	\$ -	\$ -	\$ 1,806,999



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

4. DEPOSITS

At December 31, 2022 and 2021, member regular savings accounts earned interest at an annual percentage rate of .81% and .32%, respectively, computed daily. It is the Credit Union's policy to allow withdrawals from savings accounts at any working day. However, when the Board of Directors deems necessary, they may require members to notify their intention of withdrawals up to thirty (30) days in advance.

The interest rate for the certificates varies according to the market interest rate, the amount and timing being negotiated. Savings balances maintained in the Christmas and Summers plans pay interest at an annual percentage rate of two percent (2%). Usually, these deposits are paid on October and June of each year.

As an additional service to its members, the Credit Union maintains a "Share Draft" account with Banco Cooperativo. The Credit Union will be responsible for all risks associated with the operation of the accounts of orders including, but not limited to, customer acceptance, account opening, accepting account deposits, retentions fixing deposited checks, overdrafts, customer's credit record and all the risks inherent in this type of service. Administration costs of this account shall be assumed by the Credit Union, who will set the customer service charge and determine the representative service charge in exchange and / or return of checks in line with the regulations of the Puerto Rico Clearing House Association PR. The Credit Union will maintain a master account with Banco Cooperativo whose balance will remain at ten percent (10%) of the sum of all account balances of payment orders from the Banco Cooperativo and one hundred percent (100%) of all authorized overdrafts. The current account balance not reflected in books at December 31, 2022 and 2021 is \$6,351,141 and \$5,172,531, respectively.

5. INVESTMENT IN COOPERATIVE ENTITIES AND SECURITIES

Cooperative entities

Shares in cooperative entities and contributions as of December 31, 2022 and 2021 consist of the following:

<u>Description:</u>	<u>2022</u>	<u>2021</u>
COSSEC (Nota 1)	\$ 1,032,722	\$ 993,696
Cooperativa de Seguros de Vida:	233,544	233,544
Liga de Cooperativas	1,096	1,096
Cooperativa de Seguros Múltiples	563,590	521,843
FIDECoop	71,334	71,333
Banco Cooperativo	27,129	26,182
Otras cooperativas	<u>25,724</u>	<u>25,724</u>
Total investment in shares of cooperative entities	<u>\$ 1,955,139</u>	<u>\$ 1,873,418</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. INVESTMENT IN COOPERATIVE ENTITIES AND SECURITIES (CONTINUED)

Cooperative entities (Continued)

The regulations of these cooperative entities include clauses that limit the total investment withdrawal without prior notice to the member, when the financial situation of these warrants.

Participation in COSSEC involves maintaining a capital contribution equal to one percent (1%) of the total shares and deposits held by the Credit Union as of June 30th of each year. At December 31, 2022 and 2021 the capitals amounted to the required contribution.

Marketable Securities

The Cooperative accounts for investment in accordance with the requirements of ASC 942-320 (formerly SFAS No. 115), *Investments - Debt and Equity Instruments* and classified them as available for sale. At December 31, 2022 and 2021 investments were as follows:

Investments available for sale

	<u>2022</u>		
<u>Type of investments</u>	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal Farm Credit Bank	\$ 8,635,000	(\$ 1,932,753)	\$ 6,702,247
Federal Agricultura Mortgage Corp	200,000	(4,954)	195,046
Federal Home Loan Bank	7,860,000	(1,880,011)	5,979,989
Federal National Mortgage Association	5,904,943	(1,119,288)	4,785,655
Government National Mortgage Association	31,861	805	32,666
Federal Home Loan Mortgage	4,456,873	(1,008,555)	3,448,318
Corporate Bonds	5,037,000	(1,122,919)	3,914,081
US Treasury Notes	600,000	(22,287)	577,713
	<u>\$ 32,725,677</u>	<u>(\$ 7,089,962)</u>	<u>\$ 25,635,715</u>

	<u>2021</u>		
<u>Type of investments</u>	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal National Mortgage Association	\$6,701,021	(\$ 106,061)	\$6,594,960
Federal Farm Credit Bank	7,789,671	(231,656)	7,558,015
Federal Home Loan Bank	50,589	1,505	52,094
Government National Mortgage Association	7,997,847	(273,493)	7,724,354
Federal Home Loan Mortgage	3,676,928	(127,613)	3,549,315
Corporate Bonds	4,775,547	(100,041)	4,675,506
	<u>\$30,991,603</u>	<u>(\$ 837,359)</u>	<u>\$30,154,244</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

5. INVESTMENT IN COOPERATIVE ENTITIES AND SECURITIES (CONTINUED)

Marketable Securities (Continued)

The amortized cost and estimated market value of investment securities at December 31, 2022 by maturity, is presented below. Expected maturities of investments may differ from the original contract because the borrower has the right to cancel the obligation or pay it in advance.

<u>Maturity</u>	<u>Amortized Cost</u>	<u>Market Value</u>
Less than a year	\$ 425,000	\$ 410,884
Over one to five years	3,882,953	3,692,059
Over five years to ten years	8,484,640	6,832,620
Over eleven years	19,933,084	14,700,152
	<u>\$ 32,725,677</u>	<u>\$ 25,635,715</u>

6. PROPERTY AND EQUIPMENT

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

<u>Description:</u>	<u>2022</u>	<u>2021</u>
Building and improvements	\$ 3,149,483	\$ 3,081,860
Vehicles	57,000	57,000
Programming	1,334,673	1,134,772
Furniture and equipment	912,386	871,726
	<u>5,453,542</u>	<u>5,145,358</u>
Less accumulated depreciation	<u>(3,024,374)</u>	<u>(2,760,936)</u>
	2,429,168	2,384,422
Land	314,268	314,268
	<u>\$ 2,743,436</u>	<u>\$ 2,698,690</u>

7. OTHER ASSETS

As of December 31, 2022, and 2021 other assets were as follows:

<u>Description:</u>	<u>2022</u>	<u>2021</u>
Deposits for the purchase of equipment	\$ 526,725	\$ 185,281
Credit Unions goodwill	30,612	46,840
Foreclosed properties, net of reserves	1,018,728	660,819
	<u>\$ 1,576,065</u>	<u>\$ 892,940</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

8. ACCOUNTS PAYABLES AND ACCRUED EXPENSES

As of December 31, 2022, and 2021 accounts payable and accrued expenses were as follows:

<u>Description:</u>	<u>2022</u>	<u>2021</u>
Accrued interest payable	\$ 34,712	\$ 29,909
Vacations and bonus payable	75,197	64,833
Accrued expenses	101,391	113,187
Mortgage escrow accounts payable	312,721	234,729
Insurance	124,919	121,224
Payroll taxes	5,607	12,041
Ex-members payable	81,651	94,549
Mortgages in process	59,496	134,566
Other	127,543	327,151
	<u>\$ 923,237</u>	<u>\$ 1,132,189</u>

9. MARKET VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accrued interest receivable and payable, accrued expenses and other

The book value of cash and cash equivalents, accrued interest receivable and accrued expenses and other payables approximates their market value due to the short-term nature of these instruments.

Loans Receivable

The market value of loans receivable is based on the discounted value of future cash flows expected to be received for a loan or group of loans using current rates at which similar loans could be made to borrowers with similar credit ratings and the same remaining maturities. This method considers changes in interest rates and changes in credit risk within the chosen discount rate. A particular interest rate can be applied to homogeneous categories of loans, such as credit cards and car loans and mortgage loans.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

9. MARKET VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Investments in commercial paper and certificates of savings

The market value of investments in commercial paper and certificates of savings (with a maturity greater than three months) was determined using the quoted market prices for these types of investments.

Deposits and shares

The market value of deposits from members and nonmembers constant maturity is estimated using rates currently offered for deposits with similar remaining maturities. The market value of deposits with no fixed maturity and shares is the amount payable on demand at the reporting date.

The book value and estimated market value of the financial instruments of the Credit Union to December 31, 2022 and 2021 are as follows:

	<u>Book Value</u>		<u>Market Values</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<u>Assets:</u>				
Loans, net	\$ 65,780,844	\$ 58,235,149	\$ 65,780,844	\$ 58,235,149
Cash and cash equivalents	\$ 5,930,040	\$ 10,682,680	\$ 5,930,040	\$ 10,682,680
Investments in marketable securities and certificate of deposits	\$ 34,340,677	\$ 33,356,599	\$ 27,250,715	\$ 32,519,244
<u>Liabilities and Members' Equity</u>				
Deposits	\$ 88,288,614	\$ 85,640,245	\$ 88,288,614	\$ 85,640,245
Accounts payable and accrued expenses	\$ 923,237	\$ 1,132,189	\$ 923,237	\$ 1,132,189
Shares	\$ 15,838,127	\$ 15,112,106	\$ 15,838,127	\$ 15,112,106

10. COMMITMENTS AND CONTINGENCIES

Commitment to extend credit

As of December 31, 2022 and 2021, the Cooperative had committed to extend credit or had approved but not disbursed, loans and lines of credit that are not reflected in its financial statements, related to their program of MasterCard amounting to \$1,999,314 and \$1,937,706, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Legal Actions

The Credit Union is exposed to several legal actions commonly related to financial institutions of its nature. The management of the Credit Union, considers that any possible effect of such actions will not significantly affect the financial position of the institution. As of December 31, 2022 and 2021 no provision related to this contingency, has been recorded in the Credit Union's financial statements.

Sold Mortgage Loans

Starting in the year 2003, the Credit Union adopted a strategy of selling part of their mortgage loan portfolio, most of them with recourse, to various financial institutions, while keeping the loan servicing to themselves. The balance of these loans sold since 2003, totals \$9,190,989 and \$6,456,627, as of December 31, 2022 and 2021, respectively. In some instances, the selling agreement establishes that among other things, if any loan becomes delinquent ninety (90) days or more, or if the Credit Union cannot furnish any evidence required by the buying institution; it will be replaced by another mortgage loan with similar characteristics or may be reacquired by the Credit Union during a period of one (1) to three (3) years, after the initial transaction.

Starting in the year 2016, the Credit Union adopted a strategy of selling part of their automobile loan portfolio, most of them with recourse, to various financial institutions, while keeping the loan servicing to themselves. The selling agreements establish, that among other things, that during the first year, if any loan becomes delinquent ninety (90) days or more, and requires for the automobile to be re-possessed, the Credit Union will replace such loan with another automobile loan with similar characteristics. As of December 31, 2022 and 2021, the balance of these loans amount to \$4,618 and \$113,788, respectively.

11. ADVERTISING AND PROMOTION

The promotion campaign expenses are recognized in the year incurred; the promotional expenses for the years ended December 31, 2022 and 2021 amounted to \$102,324 and \$139,152, respectively.

12. RECLASSIFICATIONS

Certain reclassifications were made to the financial statements of 2021 to agree with the presentation adopted in the financial statements of 2022.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

13. CONCENTRATION OF RISK

The Credit Union maintains cash accounts in several commercial banks, credit unions and cooperative entities in Puerto Rico. The accounts in banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and accounts in credit unions and cooperative institutions are insured by COSSEC up to \$250,000, except Banco Cooperativo. At December 31, 2022 and 2021 had an excess of deposits over insured amounts in commercial banks and credit unions and other cooperatives entities for \$5,251,404 and \$11,329,094, respectively.

14. INDIVISIBLE CAPITAL

Article 6.02 of Act No. 255, establishes that credit unions will maintain a reserve of non-distributable capital known as indivisible capital. Thirty five percent (35%) of this reserve will be kept in liquid assets.

Starting January 1, 2011 all credit unions must maintain a minimum indivisible capital of eight percent (8%) of the total amount of accounts subject to risk. Failure to meet the minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulator that, if undertaken, could have a direct material effect on the credit union's financial statements.

The Credit Union has a 22.91% and 19.53%, level of indivisible capital at December 31, 2022 and 2021, respectively.

15. MEDICAL INSURANCE

The Credit Union provides medical insurance for its employees and its contribution to such plan varies according to coverage and kind of cover, whether single, family, etc. The medical insurance expenses for the years ended December 31, 2022 and 2021 were \$149,584 and \$130,664, respectively.

16. LIFE INSURANCE

The Credit Union provides life insurance for all its members that complies with the eligibility requirements, which covers the share balances up to ten thousand dollars (\$10,000) and loans up to fifty thousand dollars (\$50,000). This insurance is covered by Cooperativa de Seguros de Vida (COSVI) and its contribution is split between the Credit Union and each member. The insurance expenses for the years ended December 31, 2022 and 2021 were \$77,342 and \$74,456, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

17. PENSION PLAN

The Credit Union has established a defined contribution pension plan for the purpose of providing retirement benefits to all its employees that qualify. The Credit Union's minimum annual contribution, including administration expenses, is computed based on each employee's salary. The Credit Union contributes up to four percent (4%) of their monthly salary, which are deposited to a trust fund. The plan cost was \$52,421 and \$51,789, for the years ended December 31, 2022 and 2021, respectively.

18. RELATED PARTY TRANSACTIONS

In the normal course of business, the Credit Union extends credit to directors, committees' members, executive officers and employees. The aggregate loan amounts to related parties at December 31, 2022 was \$1,018,601.

19. SUBSEQUENT EVENTS

For the year ended December 31, 2022, the Credit Union adopted ASC 855 (formerly SFAS No. 165), related to subsequent events. ASC 855 establishes general standards for accounting and disclosure of events that occur after the date of the reporting, but before the date of the financial statements. Specifically, sets the period after the date of the Balance Sheet during which management should evaluate the Credit Union events or transactions that may occur and need to be recorded or disclosed in the financial statements, the circumstances under which the Credit Union should recognize and publicize these events, and the type of disclosure that should be offered to these events that occurred after the date of the Balance Sheet.

In accordance with ASC 855, the Credit Union evaluated its subsequent events until April 14, 2023, the date these financial statements were ready to be issued. Credit Union's management believes that no material event occurred subsequent to December 31, 2022 required to be registered or you need additional disclosure in the financial statements.



SUPPLEMENTARY INFORMATION



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>	<u>VARIANCE</u>
Loans interest	\$ 4,539,856	\$ 4,331,029	\$ 208,827
Less: credits reports costs	(24,466)	(17,529)	(6,937)
Interest and loans commissions	4,515,390	4,313,500	201,890
Interest from savings and certificates of deposits	49,748	30,028	19,720
Dividends	42,764	30,301	12,463
Investments interest	558,539	448,659	109,880
Interest and dividends from investments	601,303	478,960	122,343
TOTAL INTEREST INCOME	5,166,441	4,822,488	343,953
Deposits	349,190	286,648	62,542
Certificates of deposits	235,870	265,987	(30,117)
Capital obligations	10,205	10,000	205
TOTAL INTEREST EXPENSE	595,265	562,635	32,630
Net interest income before			
Provision for uncollectible loans	4,571,176	4,259,853	311,323
Less: Provision for uncollectible loans	(175,000)	(445,000)	270,000
NET INTEREST INCOME	4,396,176	3,814,853	581,323
Salaries, vacations and bonus	1,202,416	1,054,388	148,028
Payroll taxes	114,210	101,754	12,456
Medical insurance	149,584	130,664	18,920
Pension plan	52,421	51,789	632
Other benefits	19,205	7,101	12,104
Salaries and related expenses	1,537,836	1,345,696	192,140
Collections	62,184	52,841	9,343
Security	71,977	69,462	2,515
Legal	14,500	20,150	(5,650)
Others	352,960	448,018	(95,058)
Professional services	501,621	590,471	(88,850)
Promotion and advertising	102,324	139,152	(36,828)
Cooperative education	18,683	26,715	(8,032)
Donations	595	1,175	(580)
Promotion and cooperative education	121,602	167,042	(45,440)
Depreciation	279,667	253,882	25,785
Rents	19,200	19,200	-
Programming	34,595	28,308	6,287
Repairs and maintenance	446,030	384,249	61,781
Facilities, equipment and maintenance	779,492	685,639	93,853



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>	<u>VARIANCE</u>
Office supplies	\$ 45,196	\$ 52,583	(\$ 7,387)
Utilities	38,259	28,698	9,561
Telephone and fax	58,372	48,880	9,492
Postages and meters	10,131	9,197	934
Office supplies and others	151,958	139,358	12,600
COSSEC insurance	239,967	262,303	(22,336)
Other	79,827	69,447	10,380
Members insurance	77,342	74,456	2,886
Surety insurance	41,956	40,013	1,943
Directors insurance	35,797	35,724	73
Insurance and surety	474,889	481,943	(7,054)
Annual meeting	43,526	13,204	30,322
Meetings Board of directors and committees	3,360	4,007	(647)
Board of Directors and Committees	46,886	17,211	29,675
Bank charges	70,153	86,819	(16,666)
Courier	36,763	34,470	2,293
Representation	3,449	2,120	1,329
IVU taxes	69,373	59,715	9,658
Foreclosed properties	90,000	240,000	(150,000)
Activities	34,133	10,854	23,279
Auto	10,349	11,576	(1,227)
Other	42,116	28,093	14,023
Other and miscellaneous	356,336	473,647	(117,311)
Total operating, general and administrative expenses	3,970,620	3,901,007	69,613
OPERATING INCOME / (LOSS)	425,556	(86,154)	511,710
OTHERS INCOME / (EXPENSES):			
Share draft accounts	121,680	137,641	(15,961)
Less: related expenses	(147,478)	(154,144)	6,666
Share draft income, net	(25,798)	(16,503)	(9,295)
Utilities commissions	12,273	12,482	(209)
Mortgage commissions	111,419	309,711	(198,292)
Insurance commissions	28,705	3,923	24,782
Services commissions	152,397	326,116	(173,719)
ATM income	203,385	195,062	8,323
Less: related expenses	(85,088)	(55,406)	(29,682)
ATM income, net	118,297	139,656	(21,359)
Loans fees	59,952	51,953	7,999
Sponsorship	55,178	47,215	7,963
Loss on sale of foreclosed properties	(34,294)	30	(34,324)
Rents	27,441	49,613	(22,172)
Grants from CDFI Funds	-	1,890,715	(1,890,715)
Miscellaneous	149,856	434,637	(284,781)
Other income	258,133	2,474,163	(2,216,030)
MasterCard income	407,620	395,200	12,420
Less: related expenses	(216,522)	(181,022)	(35,500)
MasterCard income, net	191,098	214,178	(23,080)
Loss under special amortization	(361,872)	(361,872)	-
TOTAL OTHER INCOME	332,255	2,775,738	(2,443,483)
NET INCOME	\$ 757,811	\$ 2,689,584	(\$ 1,931,773)



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
SUPPLEMENTARY SCHEDULE
COMPUTATION OF ADJUSTED NET WORTH & LIQUIDITY REQUIREMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022

ADJUSTED NET WORTH:

Minimum net worth required		<u>\$ 1,000,000</u>
Shareholders' equity (net worth) per balance sheet	\$ 9,211,318	
Less: unacceptable assets:		
Assets due from related parties	<u>1,018,601</u>	<u>(1,018,601)</u>
Adjusted net worth for HUD requirement purposes		<u>\$ 8,192,717</u>
Adjusted net worth above amount required		<u>\$ 7,192,717</u>

LIQUIDITY:

CASH IN HAND AND IN BANKS		\$ 5,930,040
CERTIFICATES OF DEPOSIT		<u>1,615,000</u>
Total liquidity assets		<u>\$ 7,545,040</u>
Adjusted Net worth		\$ 7,192,717
Liquidity required		<u>1,438,543</u>
Liquidity above amount required		<u>\$ 6,106,497</u>



COOPERATIVA DE AHORRO Y CRÉDITO JESÚS OBRERO
SUPPLEMENTARY SCHEDULE
COMPUTATION OF ADJUSTED NET WORTH & LIQUIDITY REQUIREMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

ADJUSTED NET WORTH:

Minimum net worth required		<u>\$ 1,000,000</u>
Shareholders' equity (net worth) per balance sheet	\$ 8,123,276	
Less: unacceptable assets:		
Assets due from related parties	<u>1,499,637</u>	<u>(1,499,637)</u>
Adjusted net worth for HUD requirement purposes		<u>\$ 6,623,639</u>
Adjusted net worth above amount required		<u>\$ 5,623,639</u>

LIQUIDITY:

CASH IN HAND AND IN BANKS	\$ 10,682,680	
CERTIFICATES OF DEPOSIT		<u>2,365,000</u>
Total liquidity assets		<u>\$ 13,047,680</u>
Adjusted Net worth		\$ 5,623,639
Liquidity required		<u>1,124,728</u>
Liquidity above amount required		<u>\$ 11,922,952</u>

