COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2017

BAKER TILLY PUERTO RICO, CPAs, PSC
CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Cooperativa de Ahorro y Crédito La Sagrada Familia

INDEPENDENT AUDITORS' REPORT

Report on the financial statements

We have audited the accompanying financial statements of Cooperativa de Ahorro y Crédito La Sagrada Familia (the Credit Union) which comprise the balance sheet as of December 31, 2017 and the related statement of income and expenses, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph of this report present fairly, in all material respects, the financial position of Cooperativa de Ahorro y Crédito La Sagrada Familia as of December 31, 2017 and the result 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.

(Continues)

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Restated financial information

As presented in note 18 to the financial statements, the 2017 financial statements has been restated to change the presentation adopted by the Credit Union promulgated by the Corporation for the Supervision and Insurance of Credit Unions of Puerto Rico (COSSEC) and as provided by the Law 255 of October 28, 2002, which mainly consisted of the reclassification of the members' shares accounts balance presented as equity to deposit and the amount of dividends paid on members' shares presented as a reduction of the undistributed earnings to interest expense based on the particularity of these items and in accordance with the accounting principles generally accepted in the United States of America. In addition, the recognition of the non credit portion of the other than temporary impairment on held to maturity investments was made to the amortized cost of the investments and the corresponding adjustment in the accumulated other comprehensive income.

Emphasis of a matter

Uncertainty: General obligation bonds and related bonds of the Commonwealth of Puerto Rico, its agencies and public corporations (ELA) bonds:

As presented in note 17 to the financial statements, the credit union has debt instruments with an adjusted amortized cost of $4,063,359 as of December 31, 2017, issued by the Commonwealth of Puerto Rico (ELA), its agencies and public corporations, which represents 35% of the total adjusted amortized cost of investments in securities of the Credit Union as of December 31, 2017. The Commonwealth of Puerto Rico has been experiencing a fiscal, economic and liquidity crisis that has been reflected in the deterioration of the credit ratings of its general obligation and other related bonds, which have been classified by the principal credit rating agencies since 2014 at the level of speculative investment with a negative outlook. This suggests high chances of additional defaults to those that have already occurred in various instrumentalities of the Commonwealth.

The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) which was signed on June 30, 2016 by the President of the United States, provides the ELA access to an orderly mechanism to restructure its debts in exchange for federal supervision over their finances. There is uncertainty that the balanced budget plans, debt restructuring and expectations of fiscal recovery by the government of Puerto Rico with the help of the Fiscal Oversight Board appointed in PROMESA can be completed or that they achieve the objective of pay the debts sustainably and achieve recurring balanced budgets. On the other hand, the passage of hurricanes Irma and María through Puerto Rico during the year 2017, which had catastrophic effects on the country's infrastructure, make worst the fiscal situation of the Commonwealth. These situations could have an adverse and negative impact on the amounts of the ELA debt instruments recorded in the Credit Union's financial statements as of December 31, 2017. The financial statements of the Credit Union as of December 31, 2017 present an adjustment for impairment related to its portfolio of securities investments in ELA bonds, its public agencies and corporations, as presented in note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

(Continues)

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying report of operational, general and administrative expenses for the year ended December 31, 2017 presented on page 36 is included for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Tilly Puerto Rico, CPAs, PSC
BAKER TILLY PUERTO RICO, CPAs, PSC

Guaynabo, Puerto Rico
April 3, 2018
(Except note 18 to the financial statements,
as to which the date is June 29, 2018)

License No. 218
Expires December 1, 2020

The stamp number E320964 was
affixed to the original of this report.

COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Loans, net	$ 76,540,644
Cash and cash equivalents	17,574,932
Certificates of deposit (maturity more than three months)	15,335,000
Investments:	
Negotiable instruments	11,482,565
Cooperative entities	3,317,293
Accumulated interests	412,791
Property and equipment, net	8,268,332
Other assets	1,631,962
Total assets	$ 134,563,519

LIABILITIES AND MEMBERS' EQUITY

LIABILITIES

Members' deposits and shares	$ 127,210,028
Accounts payable and accrued expenses	1,467,648
Total liabilities	128,677,676

MEMBERS' EQUITY

Appropriated regular reserves:	
Regulatory capital reserve	4,784,133
Social capital reserve	1,146,656
Reserve for possible contingencies and institutional development	1,171,637
Accumulated other comprehensive loss	(1,573,967)
Unappropriated earnings	357,384
Total members' equity	5,885,843
Total liabilities and members' equity	$ 134,563,519

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

COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
STATEMENT OF INCOME AND EXPENSES
YEAR ENDED DECEMBER 31, 2017

Income from:	
Loans	$ 5,584,460
Certificates of deposit and saving accounts	294,682
Investments in negotiable instruments	315,282
	6,194,424
Interest expense	
Members' deposits and shares	753,822
Net interest income before the provision for possible loan losses	5,440,602
Provision for possible loan losses	810,000
Net income after the provision for possible loan losses	4,630,602
Other income	1,219,040
Operational, general and administrative expenses	(4,957,095)
Other than temporary security impairment	(535,163)
Net income	$ 357,384

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

COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
STATEMENT OF CHANGES IN MEMBERS' EQUITY
YEAR ENDED DECEMBER 31, 2017

	Regulatory capital reserve	Social capital reserve	Reserve for possible contingencies and institutional development	Accummulated other comprehensive loss	Unappropriate earnings	Total
BALANCE AS OF DECEMBER 31, 2016	$ 4,784,133	$ 1,146,656	$ 1,171,637	$ (1,839,089)	$ -	$ 5,263,337
Net income	-	-	-	-	357,384	357,384
Decrease in noncredit related-other than temporary impairment loss on securities held to maturity	-	-	-	265,122	-	265,122
BALANCE AS OF DECEMBER 31, 2017	$ 4,784,133	$ 1,146,656	$ 1,171,637	$ (1,573,967)	$ 357,384	$ 5,885,843

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

COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income	$ 357,384
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	343,257
Provision for loan losses	810,000
Provision for repossesd assets	40,000
Provision for doubtful accounts	150,000
Other than temporary impairment on negotiable instruments	535,163
Capitalized dividends	(112,957)
Increase in other assets, net	(96,410)
Decrease in accounts payable and accrued expenses	(225,511)
Total adjustments	1,443,542
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,800,926
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net incrase in loans	(4,246,335)
Decrease in certificates of deposit	2,990,000
Adquisition of investments in cooperative entities, net	(5,215)
Adquisition of investments in negotiable instruments held to maturity, net	(4,937,251)
Adquisition of assets, net	(1,481,450)
NET CASH USED IN BY INVESTING ACTIVITIES	(7,680,251)
CASH FLOWS FROM FINANCIAL ACTIVITIES:	
Increase in deposits, net	6,944,482
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,944,482
INCREASE IN CASH AND CASH EQUIVALENTS	1,065,157
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	16,509,775
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 17,574,932
SUPPLEMENTARY INFORMATION:	
Cash payments for interest	$ 206,206

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

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES

Organization

Cooperativa de Ahorro y Crédito La Sagrada Familia (the Credit Union) is regulated by the Law number 255 "Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002" enacted on October 28, 2002 (the Law). In addition, the Credit Union is governed by the provisions of the Cooperative Societies General Law and the norms established by the Regulation Number 7051, know as Regulation of the Cooperative Societies law of 2002. The Credit Union is primarily dedicated to receive savings deposits from its members in the form of shares and deposits (from non-members in the form of deposits) and provide them financing sources.

Regulation

Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico

The law Number 114 of August 17, 2001, known as "Ley de la Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico" created the Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico (COSSEC). The Credit Union participates in the insurance fund program of (COSSEC) in which the shares and deposits of the members and depositors are insured up to $250,000.

Each insured credit union must maintain in COSSEC, as contributions of capital and as determined by it, an amount equal to one percent (1%) of the total credit union's shares and deposits as of June 30 of each year of operations, as declared in the shares and deposits certificate or in a certified balance sheet as required in the Law Number 114. COSSEC will establish the norms and procedures to annually determine the deposit amount for the capital contributions that must be maintained by each insured credit union in accordance with its balance of shares and deposits. Likewise (COSSEC) will establish the regulation and procedures to determine any annual increase in the capital contribution as a result of an increase in the insured shares and deposits.

The annual premium is calculated by applying the tariff rate to the capital and deposits of the insured credit union as of June 30 of each year, depending on the CAMEL classification. Each insured credit union shall pay its annual premium in advance as provided in the Act.

COSSEC, previous to approval by its Board of Directors, may establish uniform or variable tariff rates according with the exposure to risk of each insured credit union, by factors such as credit, types of investments, delinquency, liquidity, maximums limits in shares by members and insured deposits or any other that may affect the solvency of insured credit unions. The tariff rates may vary from 0.09 percent to 0.35 percent of total capital and insured deposits.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulation (Continued)

Educational fund

In accordance with the Article 6.10 of the Law Number 255, the Credit Union must separate not less than a point one percent (.1%) of the total volume of business annually, for educational purposes and promotion of the cooperative philosophy in Puerto Rico. Within the three (3) following months, after the closing of operations for each economic year, the Credit Union will determine the amount from the referred calculation, up to a maximum of $4,000. Each credit union with an annual volume exceeding $4,000,000; should contribute an additional five percent (5%) of its annual net income up to a maximum of $6,000. This amount will be deposit in the "Liga de Cooperativas de Puerto Rico".

Tax exemption

The article 6.08 of the Law establishes that the credit unions in Puerto Rico, its subsidiaries and affiliates, as well as the income derived by their activities or operations, all their assets, capital, reserves and earnings, are exempt of any income tax, property tax, municipal tax or excise tax or any tax that could be imposed in the future by the Commonwealth of Puerto Rico or any political subdivision of it. All shares and securities issued by the credit unions and by any of its subsidiaries or affiliates are exempt from the above tax payments, both in their total value as well as the dividends or interest paid.

Also, the credit unions and their subsidiaries or affiliates are exempt from dues, fees or state or municipal duties, including payment of license fees, patents, licenses and registrations, the payment of charges, rents, stamps or vouchers from the Treasury Department that are related to the issuance of all type of public and private documents, including the issuance charges for the certificate of the Property Registry of Puerto Rico or any other public registry or goverrmental office. Also, the credit unions are exempt from charges, fees, stamps or internal revenue vouchers, excise taxes or duties required in the General Court of Puerto Rico or any agency, instrumentality, public corporation of the Commonwealth of Puerto Rico or any subdivision of it.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulation (Continued)

Law of Redistribution and Adjustment of the Tax Burden

On June 30, 2013, the Law Number 40 was approved, called "Law of Redistribution and Adjustment of the Tax Burden (Law 40). Law 40 establishes significant changes to the tax system of individuals, corporations, and other legal entities and also modifies the Sales and Use Tax System ("SUT"). Law 40 eliminates the exemption from excise taxes and the SUT for purchases of goods and services previously allowed for the credit unions in Puerto Rico.

Regulation number 8665, Regulation on Accounting Standards for Credit Unions in Puerto Rico

On November 20, 2015, the accounting standards for credit unions in Puerto Rico were established. The purpose of the regulation is to promulgate the rules and procedures of accounting, financial disclosure and internal controls that must be established, maintained and used by all credit unions in Puerto Rico.

Law 220 of December 15, 2015, Accounting Requirements in Special Investments

On December 15, 2015, the Law 220 was approved to add to the Act 255, “Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002” enacted on October 28, 2002 (the Law) a chapter titled, Accounting Requirements in Special Investments. The Law provides for the credit unions in Puerto Rico to register all their investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations at their amortized cost in their accounting books as of April 1, 2015 and denominate as special investments. The Law establishes that special investments be recorded in the books of the credit unions at amortized cost regardless of their classification as available for sale or held to maturity and that no unrealized losses related to them be presented in the financial statements. Any loss in the disposition of the special investments, retention or related to the application of a pronouncement of the generally accepted accounting principles may be amortized for a period not exceeding 15 years and will be called Losses under Special Amortization. The Law also requires a note to the financial statements with a specific language. The Law also requires the creation of a special temporary reserve of 10% of the unrealized loss of the special investments plus other minimum contributions to the temporary reserve or the indivisible capital reserve that can vary between 5% to 100% of the undistributed earnings subject to the regulatory capital reserve levels and the CAEL composite index of the credit union.

Withdrawal of deposits and shares

Any member who withdraw voluntarily or is withdrawn by means of a decision taken by the Credit Union will collect as of that date, the balance amount of the deposit or shares accounts plus interest and dividends earned by the member after the deduction of any debt with the Credit Union. The payment will be effective during 30 days next to the withdraw date of the member. The Credit Union could require that members provides notification for deposit withdrawal with 30 days in advance and for the shares withdrawal with 90 days in advance.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulation (Continued)

Undistributed capital reserve

The Article 6.02 of the Law 255, establishes that credit unions should maintain an undistributed capital reserve to be known as indivisible capital reserve. Since 2008, the 35% of the undistributed capital reserve should be maintained in liquid assets.

The law establishes minimum percentage levels to the ratio of undistributed capital reserve to total assets subject to risk that the credit unions must achieve to reach a minimum ratio of undistributed capital reserve to total assets subject to risk of eight percent (8%). Once the undistributed capital reserve represents eight percent (8%) of its assets subject to risk, the Credit Union has the discretion to reduce the annual contribution to the undistributed capital reserve not less than five percent (5%) of the net income. As of December 31 2017, the Credit Union had an undistributed capital of 11.77% of their total risk assets.

Reserve of social capital

The Article 6.09 of the Law establishes that the amounts of money and other liquid assets held by a credit union that have not been claimed during the preceding five years will be converted into a reserve of social capital and / or indivisible capital at the option of the credit union.

Special temporary reserve

This reserve is required by Law 220 of December 15, 2015 while the Credit union have losses under special amortization, and is composed of 10% of the unrealized loss of the special investments plus other minimum contributions to the temporary reserve that may vary between 5% to 100% of the undistributed earnings subjects to the regulatory reserve and the CAEL composite index of the Cooperative. As of December 31, 2017 the credit union did not establish the special temporary reserve related to the special investments required by Law 220, since there were no losses to be amortized related to the impairment of the special investments.

Reserve for institutional development

This reserve was established to separate an amount of money to absorb any future economic impact on operations related to the investment in the development and implementation of new projects.

Reserve for contingencies

This reserve was established to separate an amount of money to absorb any loss of unusual or extraordinary nature due to events that may affect the assets of the credit union and its operations.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Regulation (Continued)

Liquidity

The Credit Union shall always maintain an adequate amount of liquid funds, as defined in the Article 6.07 of the Law 255 based in the composition and maturity of the deposits and certificates. This provision shall never be less than fifteen percent (15%) of the total amount of deposits and certificates of deposit as of the last day of each month. This minimum liquidity requirement does not represent an additional reserve of the net income of the Credit Union. As of December 31, 2017, the Credit Union maintain available liquid funds in excess of the required liquidity for the amount of $32,768,716.

Other reserves

COSSEC could required to the Credit Union to establish a contingency reserve with a charge to the net income to protect it against any identified risk or extraordinary activity determined reasonably with an adverse economic consequence in excess of the amount of the undistributed capital reserve of the Credit Union. The Board of Directors can establish periodic contributions to voluntary reserves which its creation had been previously approved by the annual meeting of members and delegates.

The voluntary reserves can be established for any purpose that benefits the interest of the Credit Union or the cooperative's movement, including contingencies, investment in subsidiaries one hundred percent (100%) own, investments in second grade financial enterprises and/or cooperative entities, institutional development or education in cooperative matters and technical and professional training.

Members' participation in the unappropriated earnings

The Board of Directors of the Credit Union shall provide for the distribution of the unappropriated earnings at the end of each year, after the amortization of accumulated losses, if any, the contributions to the regulatory capital reserve, as required by the Law 255, the provision for possible loan losses, and any mandatory and/or voluntary reserve, as required by Article 6.07 of the Law. Distribution of earnings will not be allowed if there is accumulated losses.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of the most significant accounting policies

Use of estimates

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These estimates are based on information available at the time the financial statements are prepared. Actual amounts or results could differ from these estimates.

Cash equivalents

For purposes of the balance sheets and cash flows, the Credit Union considers all highly liquid investments purchased with original maturities of three months or less as cash equivalents. Cash and cash equivalents as of December 31, 2017 is comprised of cash on hand, banks and brokerages.

Loans

The loans are recorded for the principal amount receivable, reduced by an accumulated provision for possible losses and unamortized deferred fees and deferred expenses in the allocation of loans.

Allowance for loan losses

The allowance for loan losses is accounted for with charges to operations by means of a provision for loan losses. The Chapter II, Section 1, Subsection F of the regulation of accounting for the credit unions in Puerto Rico establishes that every credit union should maintain a reserve for posible loan and account losses calculated base on the generally accepted accounting principles. The Credit Union's management and the Board of Directors are the responsible to establish and maintain such reserves at an appropriate level to cover the estimated amount of losses. Recoveries of previously charged-off loans, if any, are credited to the allowance for loan losses.

Credit Union's management understands that the accumulated provision for loan losses is adequate to absorb potential loan losses that could become uncollectible, based on assessments of the collections, previous experience. The evaluations also take into consideration some conditions such as changes in the nature and volume of the loan portfolio, general quality of the portfolio, specific review of troubled loans, estimated value of collateral, and general prevailing economic conditions, which could affect the repayment ability of the debtors.

The commercial loans are evaluated taking into consideration several risk factors identified through their periodic reviews in which they are evaluated individually for impairment. The evaluation methodology used considers the present value of the future cash flows discounted to the effective rate of the loan or the comparison of the fair value of the collateral less the sale costs of the collateral, if the sale of the collateral is needed. The reserve for the loans classified as restructured is evaluated using as the methodology of the present value of principal plus interest to be received for these loans in the future discounted to the effective rate of the original loan.

In those occasions in which the Credit Union has cases in its loan portfolio in the Chapters 13 of the Federal Bankruptcy Code, it will separate such cases and will evaluate them individually in accordance with their particular characteristics. Such evaluation should consider the category of the loan, the Chapter of the Federal Bankruptcy Code, the amount of the loan and the previous payment history, among other factors.

Loans are charged off against the allowance when management, with the board of directors' approval, determines that the loan principal is uncollectible Credit Union's management understands that the accumulated provision for loan losses is adequate to cover potential loan losses that could become uncollectible.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of the most significant accounting policies (Continued)

Loan origination fees, related costs and commissions

The Credit Union recognizes fees and costs related to loan origination as required by the loan origination cost topic of the FASB Accounting Standards Codifications ASC 310 (formerly known SFAS 91). As a result of this, the commissions and costs related to loan origination are deferred and amortized to the operations as an adjustment to the interest yield throughout the lesser of the contractual term of the loan or the estimated term of them.

Investments

Cooperative entities

The value of investment in shares in cooperative entities represents the original cost of the shares, adjusted by the amount of dividends declared and capitalized shares.

Negotiable instruments

The classification of investments in negotiable instruments is generally determined at the date of the purchase. At the time of a sale, the instrument is identified and removed and a gain or loss is recognized on the sale.

Held to maturity

The investment in marketable instruments classified as held to maturity are carried at cost, adjusted for amortization of premiums and/or discounts credits, as applicable.

Decrease in net realizable value of the investment below their cost that are not considered temporary are recognized as realized losses in the investment. Gains and losses on sales of investments are recognized using as a basis the specific cost of each investment. The premiums and discounts are amortized using the interest method over the period of maturity of the investments, adjusted for the anticipated prepayments. The Credit Union has no trade or available for sale investments.

No temporary impairment on marketable securities

Decreases in the market value of investments in marketable securities below their cost, are evaluated if they are temporary or not each accounting period. Decreases in the value of investments with fixed maturity below its cost attributed to specific events of the issuer are calculated based on all relevant facts and circumstances for each investment and recognized appropriately in accordance with the topic *Impairment of Investments Available for Sale and Held to Maturity* of the Accounting Standard Codification ASC promulgated by the Financial Accounting Standards Board ("FASB").

In the case of investments with fixed maturity that has an unrealized loss due to market conditions or events related to the industry, where the Credit Union has the intention and ability to hold the investment for a reasonable period of time to allow recovery of the market or the maturity, and where there is no a foreseeable risk of credit, the decline in value below its cost is considered temporary. Investments with fixed maturity that has an unrealized loss attributable to specific events of the issuer and which a credit risk is anticipated, are considered as no temporary.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of the most significant accounting policies (Continued)

Investments (Continued)

No temporary impairment on marketable securities (continued)

Management evaluates all securities in the portfolio individually, to determine whether or not any decrease in the market value is temporary. Any decrease considered not temporary impairment is divided between the amount of impairment that has elements of credit and the amount of impairment that has other items not related to credit and represent a reduction in the basis of the investment in the accounting book value. The credit impairment generally represents the amount by which the present value of cash flows expected to be collected from an investment with a no temporary decrease in value is below the amortized cost of the investment. This amount is recognized in the earnings of the Credit Union. The remaining portion of the non-temporary impairment that is not related to credit loss is recognized as part of other comprehensive income. As of December 31, 2017, Management recognized a non-temporary impairment of $535,163 in securities classified as held to maturity.

Property and equipment

Property and equipment are recorded at cost. The depreciation is determined using the straight-line method over the estimated useful life of assets. The expenses for major improvements or renovations are capitalized and maintenance and repairs are charged to operating expenses as incurred.

Long-lived assets

The management of the Credit Union identifies events or changes in the circumstances of the long-lived assets that indicate that its current value cannot be recovered and maintains a reserve for these purposes, as required in the "Accounting for the impairment of long-lived assets and for long-lived assets to be eliminated "from the accounting standards codification promulgated by the Financial Accounting Standards Board. Assets classified for sale are not depreciated and are presented separately in the statement of financial position at their book value or their market value reduced by acquisition costs, whichever is less.

(1) ORGANIZATION, REGULATION AND SUMMARY OF THE MOST SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Summary of the most significant accounting policies (Continued)

Repossessed properties

The properties acquired by foreclosure or other type of settlement are recorded by the receivable balance of the loan or the fair market value of the property received at the time of acquisition, whichever is less. The gains or losses incurred by the disposal of such assets, related maintenance expenses and estimated losses are recorded as part of current operations.

The Credit Union's Management identifies events or changes in circumstances of these assets which indicate that their current value can not be recovered and maintains a reserve for these purposes, as required by the topic *"Accounting for the Impairment of Long-lived assets and long-lived assets to be Disposed"* of the Accounting Standards Codification ASC promulgated by the Financial Accounting Standards Board.

Members' shares

A statement of account for each member is available which shows his or her membership shares. To promote savings, every member must subscribe at least twelve (12) shares a year. It's the policy of the Credit Union to allow withdrawal of shares on any business day. However, the board of directors may require members to notify their intention to make withdrawals of shares up to 90 days in advance. The membership shares are classified as liabilities and carried at amortized cost. The dividend on membership shares are reported as interest expense. The deposit and shares balance of the member could be pledge in favor of the Credit Union for the amount of an outstanding loan balance that the member owes to the Credit Union or owe another member whose loan it has guaranteed.

Interest income over loans and interest expenses

The revenue from interest on loans is recognized using the accrual method to ninety (90) days past due them. Interest on loans more than ninety (90) days past due are recognized when collected. Interest is computed on the balance due. Other income and expenses are recognized when they are generated or incurred, respectively.

Operating leases

The Credit Union recognizes rent expense using a straight-line basis over the life of the lease, which includes estimated renewal periods where appropriate to include them. As a result of recognition of rent expense on a straight-line basis, an amount of deferred income could be recognized in the statement of financial position.

(2) LOANS AND ALLOWANCE FOR THE POSSIBLE LOAN LOSSES

Transactions between related parties

Practically all the employees and members of the Board of Directors of the credit union maintain savings accounts in the institution, make loans, and participate of the services provided by the institution. The terms of the transactions made in these accounts (interest charged and paid) are similar to those of the accounts of the other general members of the credit union. The balance of loans to employees and members of the Board and Committees as of December 31, 2017 and 2016 is $ 1,043,799 and $ 828,517, respectively, and the balance of their shares is $ 940,424 and $ 715,059, respectively.

Fair value measurements

The Credit Union measures the fair value for the price that will be received when selling a financial asset, or that would be paid to transfer a debt in an ordinary transaction between market participants at the measurement date. The Credit Union seeks to maximize the use of observable inputs and minimize the use of inputs not observable when the fair value measurement is developed, in accordance with the hierarchy of inputs to determine the fair value provided by ASC 820, as presented below:

FASB Accounting Standards Codification 820-10-35, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides 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). The three levels of the fair value hierarchy under the above mentioned standard are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 – Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Observable inputs other than quoted prices that are used in the valuation of the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Model based techniques in which inputs or assumptions to the valuation methodology are unobservable in the market and significant to the fair value measurement. Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumption about risk).

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES

Loans are reported at their principal amount outstanding and are granted for periods up to ten (10) years, except for mortgage loans, which are granted up to a 30-year term. The loans bear interest at an annual rate ranging between 5% and 12% and are substantially secured by the shares and deposits of the debtors, certificates of deposit, personal and real property and other members, who provide collateral.

A summary of the credit union's loans portfolio at December 31, 2017 is as follows:

Description	
Commercial:	
Corporations	$ 135,464
Nonprofit institutions	31,108
Total commercial	166,572
Consumer:	
Personal	47,002,928
Mortgage	14,333,586
Auto	13,050,339
Credit cards – Master card	2,936,441
Home appliances	34,300
Solar system	118,618
Insurance financing	19,365
Total consumer	77,495,577
Total of loans	77,662,149
Deferred loan origination costs	463,017
	78,125,166
Less: Allowance for possible loan losses	(1,584,522)
Total loan, net	$ 76,540,644

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

The detail of the changes in the allowance for possible loan losses is as follows:

	Commercial	Consumer	Total
Balance at beginning of year	$ 1,563	$1,405,359	$1,406,922
Provision for possible loan losses	-	810,000	810,000
Charge offs	-	(704,646)	(704,646)
Recoveries, net	-	72,246	72,246
Balance at end of year	$ 1,563	$1,582,959	$1,584,522

Quality indicators of the commercial loan portfolio

Credit Union's management performs an evaluation process of the quality of the commercial credit and conducts an assessment of individual risk on commercial loans which considers the likelihood of collectibility of the loan and quality of the collateral, using the following categories to evaluate the risk:

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

Monitoring - The loan is covered with sufficient collateral but has the potential for deterioration. The debtor's financial information is not consistent or is not in compliance with budget, presenting the possibility of liquidity problems in the short term. Others peculiarities of this classification are the following: absence of recent financial information, small capitalization or industry risk. The primary source of repayment is good, but there is a possibility of the use of the collateral or a guarantor to repay the debt. Even though the payment in this type of loan is current and the collectibility is not in doubt, the frequency of payments could be affected.

Under standard - This type of loan is not adequately covered due to deterioration in the debtor's net capital or pledging of the collateral. The debtor has clear weaknesses in its financial condition which affects the recovery of the loan. It's likely that the Credit Union cannot recover the entire loan. Loans in this category are considered to be impaired and do not accrue interest, therefore the payments received are applied to principal.

Doubtful - The loan has those deficiencies presented in the above mentioned category named "Under standard." Also, the collectibility of all or part of the loan is highly unlikely. The possibility of loss is extremely high, but there are specific conditions that could be resolved in favor of the debtor and thereby strengthen the probability of recovery of the loan. The loan has not been charge off until there is a clear vision of the effect of the specific conditions mentioned before. These conditions could include additional capital, new collateral, and refinancing or liquidation proceedings. Loans in this category are considered to be impaired and do not accrue interest, therefore the payments are applied to principal.

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

The commercial loan portfolio of the Credit Union classified per the category of risk as of December 31, 2017 is presented below:

	Without exception	Monitoring	Under standard	Doubtful	Total
Corporations	$ 135,464	$ -	$ -	$ -	$ 135,464
Nonprofit institutions	31,108	-	-	-	31,108
Total commercial	$ 166,572	$ -	$ -	$ -	$ 166,572

The Credit Union monitors the aging of its commercial loan portfolio in order to manage the credit risk. The aging of the commercial loans portfolio by past due category at December 31, 2017 is presented below:

		Past due days			
	Current 0-60	61-180	181-360	Over 360	Total
Corporations	$135,464	$ -	$ -	$ -	$135,464
Nonprofit institutions	31,108	-	-	-	31,108
Total commercial	$166,572	$ -	$ -	$ -	$166,572

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

Quality indicators of the consumer loan portfolio

The Credit Union has several types of consumer loans with different credit risks. The Credit Union monitors the allowance for possible loan losses of its consumer loan portfolio and use in the evaluation the default rate and the empirical range. Below is the consumer loan portfolio by aging category at December 31, 2017:

	Past due days					
	Current or 0-60	**61-180**	**181-360**	**360 or more**	**Total**	**90+ & Non-accrue**
December 31, 2017						
Personal	$ 45,241,051	$ 1,064,390	$ 496,651	$ 200,836	$ 47,002,928	$ 1,202,434
Mortgage	13,818,171	138,295	11,650	365,470	14,333,586	515,415
Auto	12,640,765	187,531	214,807	7,236	13,050,339	409,575
Credit card - Master-Card	2,594,329	240,378	101,734	-	2,936,441	182,485
Home appliances	34,300	-	-	-	34,300	-
Solar system	118,618	-	-	-	118,618	-
Insurance financing	17,389	1,976	-	-	19,365	1,976
Total consumer loans	$ 74,464,623	$ 1,632,570	$ 824,842	$ 573,542	$ 77,495,577	$ 2,311,885

As mentioned in footnote 1 to the financial statements, interest on loans past due ninety (90) days or more are recognized when collected.

Loan-to-value of the collateral is a ratio that compares the principal balance of the loan to the collateral value. The distribution of the loan portfolio with home equity mortgage guaranty at December 31, 2017 according to the before mentioned ratio is presented below. The proportion of loan-to-value of the collateral does not necessarily reflect the loan repayment trend, but provides an indicator of the value of the collateral and the exposure of the Credit Union. In the event that the loan cannot be recovered, the loss the Credit Union would assume should be limited to the excess of the net realizable value of the property compared to the loan balance.

	Loan to value of collateral			
	0-80%	**81-90%**	**91-100%**	**Total**
First mortgage	$ 10,307,253	$ 3,879,861	$ 146,472	$ 14,333,586
Total	$ 10,307,253	$ 3,879,861	$ 146,472	$ 14,333,586

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

Quality indicators of the consumer loan portfolio (Continued)

The principal types of the consumer loans portfolio at December 31, 2017 classified by their credit score at the granting date is as follows:

	Credit Score				
December 31, 2017	**< 600**	**601-650**	**651-700**	**701 +**	**Total**
Personal	$7,295,542	$6,791,193	$12,310,720	$20,605,473	$ 47,002,928
Mortgage	1,451,381	3,256,561	3,854,358	5,771,286	14,333,586
Auto	1,464,113	2,885,815	3,911,501	4,788,910	13,050,339
Credit card - Master Card	220,389	1,645,991	580,051	490,010	2,936,441
Home appliances	-	8,544	11,819	13,937	34,300
Solar system	-	-	-	118,618	118,618
Insurance financing	18,991	374	-	-	19,365
Total consumer loans	$10,450,416	$14,588,478	$20,668,449	$31,788,234	$ 77,495,577

A summary of the past due loans in the loan portfolio at December 31, 2017 classified by the principal types of loans are presented below:

	At the end of the year	
	Outstanding balance	**Specific reserve**
Consumer:		
Personal and other consumer	$ 1,763,853	$ 500,965
Mortgage	515,415	36,850
Auto	409,574	141,592
Credit cards-Master Card	342,112	80,653
Total consumer	$ 3,030,954	$ 760,060

(2) LOANS AND ALLOWANCE FOR POSSIBLE LOAN LOSSES (CONTINUED)

A summary of the loans that were modified and classified as restructured loans as of December 31, 2017, including those restructured loans in delinquency status is presented below.

	Restructured loans			Delinquent restructured loans		
	Amount of loans	Principal balance	Assigned reserve	Amount of loans	Principal balance	Assigned reserve
Consumer loans:						
Personal	30	$ 340,057	$ 66,227	7	$ 89,849	$ 25,146
Mortgage	10	649,672	6,800	2	68,348	5,394
Auto	6	63,762	9,621	1	11,619	565
Total consumer	46	$ 1,053,491	$ 82,648	10	$ 169,816	$ 31,105

A summary of the types of concessions granted to the restructured loans for the years ended December 31, 2017 is presented below:

	Type of concession			
	Interest rate	Due date	Others	Total
Consumers loans:				
Personal	$ -	$ 340,057	$ -	$ 340,057
Mortgage	-	649,672	-	649,672
Auto	-	63,762	-	63,762
	$ -	$ 1,053,491	$ -	$ 1,053,491

(3) INVESTMENTS IN COOPERATIVE ENTITIES AND NEGOTIABLE INSTRUMENTS

Cooperative entities

The balance of the investments in cooperative entities as of December 31, 2017, include the following:

Description	
COSSEC	$ 1,252,595
Banco Cooperativo	1,523,555
Cooperativa de Seguros de Vida - Common stocks	144,760
Fide Coop Fund	296,795
Cooperativa de Seguros Múltiples	90,568
Cooperativa de Seguros Fúnebres	6,800
Liga de Cooperativas	1,220
Circuito de cooperativas	1,000
Total investments in cooperative entities	$ 3,317,293

The regulations of these institutions include clauses that restrict the total retirement of the investment without previous notice, when it is justified by its financial condition.

Negotiable instruments

As of December 31, 2017, the investment in negotiable instruments consists of debt obligations and mortgage participation. These values yield income at annual rates between 1.88% and 5.50% and mature within the years 2018 to 2024. The amortized cost, the fair market value and the unrealized gain or loss of the investment in negotiable instruments classified as held to maturity as of December 31, 2017 is presented below:

	Amortized cost	No temporary impairment	Adjusted amortized cost	Unrealized gain (loss)	Fair value
Federal Home Loan Bank (FHLB)	$ 2,355,703	$ -	$ 2,355,703	($25,299)	$ 2,330,404
Federal Home Loan Mtg. Corp (FHLMC)	2,469,943	-	2,469,943	(8,808)	2,461,135
Federal National Mortgage Association	849,835	-	849,835	(958)	848,877
Federal Farm Credit Bonds	1,743,725	-	1,743,725	(10,273)	1,733,452
Commonwealth of Puerto Rico Bonds	4,598,522	(535,163)	4,063,359	(869,751)	3,193,608
	$ 12,017,728	($535,163)	$ 11,482,565	($915,089)	$ 10,567,476

(3) INVESTMENTS IN COOPERATIVE ENTITIES AND NEGOTIABLE INSTRUMENTS (CONTINUED)

Negotiable instruments (Continued)

As of December 31, 2017, the Credit Union held investments with Morgan Stanley and Merrill Lynch. The following table shows unrealized losses, the estimated aggregated market value and the time that the individual investments were in an unrealized loss position during 2017:

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Federal Home Loan Mortgage	$ 2,461,135	($ 8,808)	$ -	$ -	$2,461,135	($ 8,808)
Federal Home Loan Bank and National Mortgage	-	-	4,912,733	(36,530)	4,912,733	(36,530)
PR Government Bonds	-	-	2,661,750	(898,001)	2,661,750	(934,531)
	$ 2,461,135	($ 8,808)	$7,574,483	($ 934,531)	$10,035,618	($ 979,869)

The amortized cost and estimated market value of investment securities at December 31, 2017, according to their maturity, are presented below. Expected maturities may differ from the original contract if the borrower paid in full or make a prepayment of the debt obligation.

Maturity	**Adjusted amortized cost**	**Fair value**
Less than one year	$ 3,117,272	$ 2,331,945
From one to five years	7,358,089	7,235,241
From five to ten years	1,007,204	1,000,290
	$ 11,482,565	$ 10,567,476

(3) INVESTMENTS IN COOPERATIVE ENTITIES AND NEGOTIABLE INSTRUMENTS (CONTINUED)

Negotiable instruments (Continued)

Impairment of investments

The investment portfolio of the Credit union includes a material amount of instruments issued by the Government of the Commonwealth of Puerto Rico and / or its instrumentalities. As of December 31, 2017, the market value of these investments is $ 3,193,608. To address the situation of the investments in the bonds of the Commonwealth of Puerto Rico, the Public Corporation for the Supervision and Insurance of Credit Unions of Puerto Rico (COSSEC) has adopted a special rule that provides that credit unions in Puerto Rico account for the government bonds of the Commonwealth of Puerto Rico and their instrumentalities in a uniform manner as held to maturity investments and that any loss in these investments or any loss that arises in the investments because of the application of any rule, analysis or procedure established by accounting principles generally accepted in the United States of America, or by requirements or pronouncements of regulatory agencies may be amortized for a period of up to fifteen (15) years.

During the year ended December 31, 2017, several ELA instrumentalities did not comply with their obligations to pay principal and interest. The Credit Union maintains its investment portfolio as held to maturity. The management of the credit union conducted the annual analysis of impairment in its investment portfolio with the assistance of its investment consultant and determined for the year ended December 31, 2017 a total non-temporary impairment of $535,163, which consists of $385,000 for the debt instruments of the Government Development Bank and $ 150,163 related to the decrease in value of the investment in the Electric Power Authority. The amount of total impairment is recognized in the same year 2017, therefore the Credit Union do not adopted the special rule previously mentioned provided by COSSEC. The Credit Union has established a Committee on Special Investments, as established in Law 255 which monitors and continuously evaluates the bond portfolio of the Commonwealth of Puerto Rico.

The following table present roll forwards of the other than temporary impairment on investments recognized in earnings due to credit-related lossess.

	Activities in credit related other than temporary impairment (OTTI) recognized through earnings					
Investment	**Cummulative benginning balance**	**Additions to OTTI not previously recognized**	**Reduction for securities sold**	**Reduction for securities intend to be sold**	**Additions for increase in OTTI amounts previosuly recognized**	**Cummulative ending balance**
Government Development Bank	$ 1,348,049	$ -	$ -	$ -	$ 385,000	$ 1,733,049
Electric Power Authority	$ 141,591	$ -	$ -	$ -	$ 150,163	$ 291,754
Pubic Finance Corporation	$ 252,000	$ -	$ -	$ -	$ -	$ 252,000

(3) INVESTMENTS IN COOPERATIVE ENTITIES AND NEGOTIABLE INSTRUMENTS (CONTINUED)

Negotiable instruments (Continued)

Impairment of investments (Continued)

In order to determine whether the impairment in value of the investments is temporary, the management of the credit union considered in its analysis all the pertinent and available information about its collectability, including previous events, current conditions, and projections and reasonable estimates of the amount of the cash to be collected from them, as well as the repayment experience. The management of the credit union also considered other factors, such as the performance of investments and guarantees, as well as the general economic condition of Puerto Rico.

The credit union has the capacity and intention to keep the investments of the Commonwealth of Puerto Rico Bonds until a recovery of the amortized cost occurs and does not anticipate having to dispose of them. The management of the credit union does not consider the unrealized losses remaining in its investments as non-temporary. However, as presented in note 17 to the financial statements, there is uncertainty as to how financial markets can react to the debt degradation of the Commonwealth and the fiscal situation of the Government of Puerto Rico. The Cooperative will periodically evaluate the investment portfolio to identify situations of decrease in value of the investments that may be considered as non-temporary.

(4) DEPOSITS

Savings accounts involve the payment of interest at a rate that fluctuates in relation to the interest rate of the market. The average annual interest rate computed quarterly during the year ended December 31, 2017, was .41%. The Credit Union allows withdrawals from savings accounts on any working day. However, when the Board of Directors deems it necessary, it may request that members notify their intention to make withdrawals until thirty (30) days in advance. The percentage of interest on certificates varies according to the market interest rate, the amount and time negotiated. Balances held at the christmas and summer saving plans bear interest an annual average of 1.00%. These types of deposits are usually withdrawn in October and May each year, respectively. The Credit Union also provides share draft accounts to its members. The service charges for these accounts will be charged by the Credit Union. The balances of these accounts amounted to $3,766,563 as of December 31, 2017.

At December 31, 2017, the maturity of term deposits is as follows:

Less than a year	$ 3,834,015
1 to 3 years	487,284
4 to 5 years	-
	$ 4,321,299

(5) PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2017 include the following:

Description	
Building and improvements	$ 6,366,274
Furniture and equipment	3,847,931
Motor vehicles	83,406
Construction in progress	1,352,156
	11,649,767
Less: Accumulated depreciation	(4,700,381)
	6,949,386
Land	1,318,946
Total property and equipment	$ 8,268,332

(6) OTHER ASSETS

Other assets as of December 31, 2017 include the following:

Prepaid expenses	$ 286,277
Deposits for the acquisition of equipments and insurance surety	105,818
Repossessed properties, net	314,992
Accounts receivable, net	561,702
Other assets	363,173
	$ 1,631,962

(7) ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Balances of accounts payable and accrued expenses as of December 31, 2017 include the following:

Insurance premiums withheld	$ 53,702
Accumulated vacation payable	76,655
Interest payable	553,065
Provisions and other accrued expenses	443,734
Others accounts payable	340,492
	$ 1,467,648

(8) OTHER INCOME

Other income for the year ended December 31, 2017 include the following:

Commissions	$ 403,062
Insurance claim	450,000
Charges and services fees	141,059
Surcharges and penalties	118,944
Fees	35,632
Others	70,343
	$ 1,219,040

(9) HEALTH INSURANCE PLAN

The Credit Union provides to its employees a health insurance plan. The Credit Union contribution varies in accordance with the coverage selected by the employee and the family composition. The health insurance plan expense for the year ended December 31, 2017 was $125,408.

(10) FUNERAL INSURANCE

The Credit Union provides to the members a funeral insurance which has a maximum coverage of $1,500, depending on the balance of the members' shares. In order to qualify, the member must be 55 years of age or less. The premium fee for this insurance is paid by the Credit Union. Funeral insurance expense for the year ended December 31, 2017 was $84,943.

(11) PENSION PLAN

The Credit Union has a defined contribution pension plan for as a retirement benefit to its employees. Eligible employees for this plan are those who have completed 3 months of continuous employment in the Credit Union. The employees can contribute up to 10 percent of their monthly salary, and the Credit Union contributes an amount equal to four percent (4%) of the monthly compensation of the employee. It's the Credit Union's policy to provide the minimum amounts required under the "Employee Retirement Income Security Act" (ERISA). The pension plan provides for normal retirement benefits, temporary retirement, vesting and death. The plan expense was $48,350 for the year ended December 31, 2017.

(12) RISK CONCENTRATION

The Credit Union has cash accounts in various financial institutions (banks and credit unions) in Puerto Rico. The accounts at each institution are insured up to $250,000 in both; the Federal Deposit Insurance Corporation (in banks) and by COSSEC (in credit unions). As of December 31, 2017 the Credit Union had funds in these institutions in excess of the insured amount by $25,505,102.

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of financial instruments

The topic of "Disclosure of Fair Value of Financial Instruments" of the Accounting Standards Codification, requires disclosure of the fair value of financial instruments, whether or not recognized in the financial statements. The fair value is the amount for which a financial instrument could be exchanged or negotiated between the parties in a transaction.

Loans receivable

The market value of loans receivable considers the discounted value of expected future cash flows to be received for a loan or group of loans using current rates at which similar loans could be made to borrowers with similar interest rates and the same remaining maturities. This method considers changes in interest rates and changes in credit risk in the discount interest rate chosen.

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

The book value of cash and cash equivalents, accrued interest receivable and accounts payable and accrued expenses approximate their market value due to the short term nature of these instruments.

Investments in negotiable instruments and savings certificates

The market value of investments in negotiable instruments and certificates of savings (with maturity greater than three months) is determined using the quoted market prices for these types of investments as available. If there is no quoted price in the market for a type of investment, market value is estimated using prices quoted in the market for similar instruments.

Cooperatives entities

The value of the investments in cooperative entities represents the original cost of the investments made plus the capitalized dividends minus withdrawals or refunds. Management understands that the fair value of such investments should approximate the value in the books due to the particularity of them.

Deposits and shares

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

The book value and estimated fair value of the Credit Union's financial instruments is as follows for the year ended December 31, 2017:

	Book Value	**Market Value**
Financial assets:		
Loans receivable, net	$76,540,644	$75,780,912
Cash and cash equivalents	$17,574,932	$17,574,932
Investments in negotiables instruments and certificates of deposit	$26,817,565	$25,902,476
Accrued interest receivable	$ 412,791	$ 412,791
Financial liabilities and members' shares:		
Member's deposits and shares	$127,210,028	$127,210,028
Accounts payable and accrued expenses	$ 1,467,648	$ 1,467,648

(13) FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Repossessed properties

The Credit Union measures certain assets such as repossessed properties at fair value on a non-recurring basis in accordance with accounting principles generally accepted in the United States of America. The repossessed properties are recorded at the lower of cost (value of the loan in the books) or their fair value less any estimated cost to dispose of the property. The fair value is derived from the appraisals of the properties. If the property is of recent acquisition, it is recorded in the books based on its market value less the cost to sell on the date of acquisition.

The Credit Union classifies the inputs used to determine the fair value of these properties at level 3 within the hierarchy of fair value measurement. The valuation methodology used for these fair value adjustments is presented in note 1 to the financial statements. The level of inputs used to determine the adjustments and book value of properties repossessed as of December 31, 2017, which is evaluated on a non-recurring basis, is presented below.

		Fair value			
Description	Book value	Level 1	Level 2	Level 3	Total
Auto and repossed properties	$314,992	$ -	$ -	$314,992	$314,992

The change in the fair value balance of the repossessed properties, which is determined using the inputs of the level 3 before mentioned is as follow:

Balance at beginning of year	$309,144
Repossessed properties	144,628
Sales of repossessed properties	(138,368)
Changes in the provision for repossessed properties	(412)
	$314,992

The preceding methods described may produce fair values calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(14) COMPREHENSIVE INCOME

Credit Union’s management adapted the Accounting Standard Codification ASC 220 related to the topic of the presentation of comprehensive net income and present as an additional financial statement, the comprehensive net income. Comprehensive income is the total of: (1) operating earnings plus (2) other changes in net assets arising from other sources.

(15) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEETS CREDIT RISK

The Credit Union uses certain financial instruments with off-balance-sheet risk in the normal course of business to satisfy the financing needs of its members. These financial instruments are commitments to extend credit, including credit cards. Those instruments involve elements of credit risk at various levels in excess of the amounts recognized in the balance sheet. The Credit Union exposure to credit loss in the event of default by the members is represented by the contractual nominal amount of those instruments. The Credit Union uses the same credit policies in making commitments and conditional credit obligations as it does for the financial instruments reported in the balance sheet. The commitments to extend credit are agreements to lend funds to members to a pre-established interest rate for a specific period of time. The Credit Union does not expect future cash requirements to be significant on these commitment since most of them expired without having made a disbursement of funds. The Credit Union records these instruments when disbursed. The Credit Union evaluates the credit situation of its members before the credit is extended and determines with a credit evaluation the amount of collateral to be required as a condition for the credit requested.

As of December 31, 2017, the Credit Union was committed to extend credit or had approved, but not disbursed loans and credit lines not reflected yet in its financial statements related to their credit card programs Master Card amounted to $4,614,298.

(16) SUBSEQUENT EVENTS

According to FASB Accounting Standard Codification ASC 855, management of the Credit Union evaluated its subsequent events through April 3, 2018, which is the date the financial statements were available to be issued and understands that there are no subsequent events that require further disclosure in the financial statements.

(17) COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES

Commitment

The Credit Union conducts the operations of the Naranjito branch under a lease classified as an operating lease. Contract expiration dates vary until the year 2022. Rent expense for the years ended December 31, 2017 was $47,475. The following future minimum lease payments under the lease are as follows:

Years ended as of December 31,	Amount
2018	$ 49,059
2019	52,385
2020	52,385
2021	52,385
2022	17,461
	$ 223,675

Contingency

The credit union is exposed to several legal actions commonly related to financial institutions of its nature. The credit union has a pending legal action related to an alleged unjustified dismissal, whose total claim amounts to approximately $ 250,000 as of December 31, 2017 and is in the stage of procedural, as represented by the legal counsel of the institution. The management of the credit union after taking into consideration the opinion of its legal counsel, estimates that the possible total effect of said action will not significantly affect the financial position of the institution. As of December 31, 2017 there is no adjustment related to this contingency.

Uncertainty - Bonds of the Commonwealth of Puerto Rico, its agencies and public corporations

As of December 31, 2017, the credit union had debt instruments with an adjusted amortized cost of $4,063,359 issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA). The amortized cost of the bonds issued by the ELA, its agencies and public corporations, represent 35% of the total adjusted amortized cost of investments in securities of the credit union as of December 31, 2017. The Commonwealth of Puerto Rico experiences a fiscal, economic and liquidity crisis as a result of many years of budget deficits, a prolonged economic recession, high unemployment, population decline and high levels of debt and pension obligations. Since 2014, the credit classification of general obligation bonds and other related ELA bonds have been classified several times by the principal credit rating agencies such as Moody's Standard & Poor's and Fitch, Inc. at the investment level speculative, which suggests high probabilities of defaults and increases the likelihood of legal actions for breach of commitments with bondholders and insurance companies.

On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). This Act grants the ELA access to an orderly mechanism to restructure its debts in exchange for a federal administrative oversight over its finances while seeking to provide fiscal and economic discipline through the creation of a Fiscal Oversight Board appointed by the Congress of the United States of America with plenary authority on the finances of Puerto Rico. In addition, it provides a remedy to stop for a time, possible claims from creditors by enacting a temporary moratorium on litigation.

(17) COMMITMENTS, CONTINGENCIES AND UNCERTAINTIES (CONTINUED)

During the year ended December 31, 2017, several ELA instrumentalities did not meet their obligations to pay principal and interest. The payment of the public debt that includes the ELA bonds will heavily depend on the results in federal court of Title III of the PROMESA law. The government of Puerto Rico is taking legislative and administrative measures to encourage spending cuts and increase collections. The management of the credit union expects that the plans and laws promulgated by the Commonwealth and the technical or economic intervention of the United States government will improve the liquidity and the operational and financial situation of Puerto Rico, so as to contribute to the recovery of the total amount of the principal and interest of the investments, as contractually agreed. However, there is uncertainty as to whether the plans and expectations for fiscal recovery can be completed or that they achieve the objective of paying the debt sustainably with recurring balanced budgets. On the other hand, the passage of hurricanes Irma and María over the country during the year 2017 caused catastrophic effects on infrastructure and housing, which worsted the fiscal and economic crisis of the ELA. These situations could have a material adverse impact on the value of the Commonwealth investments recorded in the credit union's financial statements. The financial statements do not present adjustments related to the effect about the uncertainty on the economic conditions of the government of Puerto Rico and its effect in the balance of the credit union's investments in ELA bonds.

(18) RESTATED FINANCIAL INFORMATION

The Credit Union presents the members' share accounts as part of the members' equity in the balance sheet and the dividends paid on members' shares as a reduction of the undistributed earnings in accordance with the presentation promulgated by the Corporation for the Supervision and Insurance of Credit Unions of Puerto Rico (COSSEC) and as provided by Law 255 of October 28, 2002. The financial statements for the year ended December 31, 2017 have been restated to reclasify the members' share accounts and other transactions in the capital reserve accounts as liabilities and record the payment of dividend on members' shares as interest expense in accordance with the accounting principles generally accepted in the United States of America based on the characteristic of the accounts and to recognized the non credit related other than temporary impairment in securities held to maturity in other comprehensive income. The following accounts were adjusted for the year ended December 31, 2017.

Liabilities increase and total members's shares-equity decrease by $66,695,902, which represent the balance of members' shares and certain capital reserves transactons. Interest expense increase and dividend decrease in the members's equity section by $547,568, which represent the amount of capitalized dividends and total assets and members' equity descreased by $1,573,967 which represent the amount of non credit related other than temporary impairment on securities held to maturity.

SUPPLEMENTARY INFORMATION

COOPERATIVA DE AHORRO Y CRÉDITO LA SAGRADA FAMILIA
REPORT OF OPERATIONAL, GENERAL AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

Salaries, bonus and vacations	$ 1,457,110
Payroll taxes	137,368
Pension plan (Note 11)	48,350
Health insurance (Note 9)	125,408
Depreciation	343,257
Insurance:	
COSSEC	262,433
Funeral (Note 10)	84,943
Generals	126,659
Professionals fees	437,239
Utilities	169,076
Bank charges, credit cards and ATM	456,059
Amortization of deferred cost of acquisition	160,544
Repair and manteinance	286,199
Provision for account payable	150,000
Materials and office supplies	61,462
Promotion	137,866
Education	40,031
Postal office supply expense	68,351
Credit report and collection charges	39,780
Rent	47,475
Sales and use tax	66,202
Provision for repossessed property	40,000
Disposition of assets	18,000
Board of directors and comittees expenses	35,058
Assembly	76,420
Motor vehicles expenses	10,682
Donations	11,866
Travel, meals and representation	7,415
Other expenses	51,842
Total	$ 4,957,095