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COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL
FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS

For the Years Ended
December 31, 2025, and 2024



**COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL
COOPERATIVA)**

**FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT AUDITORS
For the years ended December 31, 2025, and 2024**

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INDEPENDENT AUDITORS' REPORT

Corporación Pública para la Supervisión y Seguro
de Cooperativas de Puerto Rico (COSSEC)
Board of Directors
Cooperativa de Ahorro y Crédito San Rafael (San Rafael Cooperativa)
Quebradillas, Puerto Rico

Opinions

We have audited the accompanying financial statements of Cooperativa de Ahorro y Crédito San Rafael (San Rafael Cooperativa), which comprise the Statements of financial condition as of December 31, 2025 and 2024, and the related statements of income and expenses, comprehensive income, changes in members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Unmodified Opinion over Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of Cooperativa de Ahorro y Crédito San Rafael (San Rafael Cooperativa) (hereinafter referred to as, "the Credit Union") as of December 31, 2025 and 2024, and the results of its operations, changes in members' equity and cash flows for the years then ended, in accordance with the regulatory basis of accounting required by "Corporación para la Supervisión y Seguros de Cooperativas de Puerto Rico" (hereinafter "COSSEC"), as described in Notes 1 and 2 of the financial statements.

Qualified Opinion over Generally Accepted Accounting Principles in the United States

In our opinion, except for the significant effects on the financial statements described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial condition of the Credit Union as of December 31, 2025 and 2024, the result of its operations, changes in members' equity and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Qualified Opinion over Generally Accepted Accounting Principles in the United States

As described in Notes 1 and 2, the financial statements of the Credit Union are presented in accordance with the regulatory basis required by "COSSEC", which is a basis of accounting other than the accounting principles generally accepted in the United States of America, to comply with the "COSSEC" requirements. Generally accepted accounting principles require that shares be presented as deposits and the dividends paid are recognized as an interest expense. The effects on financial statements of the variances between the regulatory basis of accounting described in Note 2 and generally accepted accounting principles in the United States of America, are a decrease in members' equity and an increase in liabilities by \$47,578,977 and \$47,191,559 and a decrease in the net income by the amount of \$760,000 and \$1,400,000. In addition, an increase in undistributed earnings would increase and voluntary capital reserves would reduce, which are not in conformity with generally accepted accounting principles, by \$21 and \$20 million for 2025 and 2024.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices required by "COSSEC" 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 financial statements, Management is required to evaluate whether there are conditions or events considered in the aggregate that raise substantial doubt about the Credit Union's ability to continue as a going concern within one year after the date on which the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of the internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal controls. Therefore, we do not express an opinion.
- Evaluate the appropriateness of the 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 on whether there are conditions or events considered in the aggregate, which raise substantial doubt about The Credit Union's ability to continue as a going concern for a reasonable period of time.

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

San Juan, Puerto Rico
March 25, 2026



DPSC96-121
Cooperativa de Ahorro y Crédito San Rafael

GONZÁLEZ TORRES & CO., CPA, PSC

License Number 96

Expires on December 1, 2026

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)
STATEMENTS OF FINANCIAL CONDITION
December 31, 2025, and 2024

	<u>ASSETS</u>	
	<u>2025</u>	<u>2024</u>
Cash and cash equivalents	\$ 19,744,586	\$ 18,557,818
Certificates of savings (due over three months)	9,800,044	9,700,044
Investment in securities:		
Available for sale, at market value (amortized cost of \$43,286,892 and \$50,984,765)	36,594,616	42,150,654
Held to maturity	9,259,662	9,462,957
Loans receivable, net of current expected credit losses of \$4,577,705 and \$3,933,937	139,339,139	130,878,412
Interest receivable	1,147,956	1,172,872
Investments in cooperative entities	11,466,792	10,777,837
Property and equipment, net of accumulated depreciation	2,859,059	3,116,084
Other assets	2,296,734	1,770,085
Total assets	\$ 232,508,588	\$ 227,586,763

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Deposits and certificates of deposit	\$ 155,872,426	\$ 156,671,963
Accounts payable and accrued expenses	1,639,628	1,419,750
Total liabilities	157,512,054	158,091,713

Members' Equity:

Shares, par value of \$10	47,578,977	47,191,559
Undistributed capital reserve	10,777,706	10,350,099
Reserve for contingencies - Circular Letter 2021-02	-	1,397,475
Regulatory reserve for institutional resilience (RRRI)	1,745,330	
Other voluntary reserves	20,826,797	18,630,028
Accumulated net comprehensive loss	(6,692,276)	(8,834,111)
Undistributed earnings	760,000	760,000
Total members' equity	74,996,534	69,495,050
Total liabilities and members' equity	\$ 232,508,588	\$ 227,586,763

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

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)
STATEMENTS OF INCOME AND EXPENSES
For the years ended December 31, 2025, and 2024

	<u>2025</u>	<u>2024</u>
Income from financial operations:		
Interest income:		
Loans	\$ 12,199,164	\$ 11,164,553
Certificates of deposits and saving accounts	812,781	793,806
Investment in securities	1,436,308	1,603,274
Total interest income	<u>14,448,253</u>	<u>13,561,633</u>
Interest expense:		
Deposits and certificate of deposits	(2,621,032)	(2,679,062)
Net interest income	<u>11,827,221</u>	<u>10,882,571</u>
Provision for current expected credit losses	(2,441,894)	(1,621,467)
Gross income from financial operations	<u>9,385,327</u>	<u>9,261,104</u>
Other income	2,749,108	2,091,914
General and administrative expenses	(8,655,883)	(7,535,487)
Federal funds "CDFI"	-	37,738
Net income	<u><u>\$ 3,478,552</u></u>	<u><u>\$ 3,855,269</u></u>

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

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2025, and 2024

	<u>2025</u>	<u>2024</u>
Net income	\$ 3,478,552	\$ 3,855,269
Other comprehensive income:		
Change in unrealized loss on securities available-for-sale	2,141,835	(349,251)
Net comprehensive income	<u>\$ 5,620,387</u>	<u>\$ 3,506,018</u>

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

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

STATEMENTS OF CHANGES IN MEMBERS' EQUITY

For the years ended December 31, 2025, and 2024

	Shares	Undistributed capital reserve	Reserve for contingencies - Circular Letter 2021-02	Regulatory reserve for institutional resilience	Other voluntary reserves	Accumulated net comprehensive loss	Undistributed earnings	Total members' equity
Balance at December 31, 2023	\$ 45,812,514	\$ 10,017,520	\$ 1,015,722	\$ -	\$ 16,107,389	\$ (8,484,860)	\$ 1,400,000	\$ 65,868,285
Additional investments from members	3,919,739	-	-	-	-	-	-	3,919,739
Capitalized dividends	1,400,000	-	-	-	-	-	(1,400,000)	-
Withdrawal from members	(3,940,694)	-	-	-	-	-	-	(3,940,694)
Transfer of inactive accounts	-	141,702	-	-	-	-	-	141,702
Unrealized gain (loss) on investments	-	-	-	-	-	(349,251)	-	(349,251)
Provision for contingency reserve	-	-	-	-	2,484,901	-	(2,484,901)	-
Contribution to indivisible capital reserve	-	190,877	-	-	-	-	(190,877)	-
Contribution to CDFI reserve	-	-	-	-	37,738	-	(37,738)	-
Contribution to contingency reserve required by COSSEC	-	-	381,753	-	-	-	(381,753)	-
Net income	-	-	-	-	-	-	3,855,269	3,855,269
Balance at December 31, 2024	\$ 47,191,559	\$ 10,350,099	\$ 1,397,475	\$ -	\$ 18,630,028	\$ (8,834,111)	\$ 760,000	\$ 69,495,050
Additional investment from members	3,913,689	-	-	-	-	-	-	3,913,689
Capitalized dividends	760,000	-	-	-	-	-	(760,000)	-
Withdrawal from members	(4,286,271)	-	-	-	-	-	-	(4,286,271)
Transfer of inactive accounts, net	-	253,679	-	-	-	-	-	253,679
Unrealized gain (loss) on investments	-	-	-	-	-	2,141,835	-	2,141,835
Provision for contingency reserve	-	-	-	-	2,196,769	-	(2,196,769)	-
Contribution to indivisible capital reserve	-	173,928	-	-	-	-	(173,928)	-
Contribution to CDFI reserve	-	-	-	-	-	-	-	-
Contribution to contingency reserve required by COSSEC	-	-	-	-	-	-	-	-
Contribution to RRRRI required reserve	-	-	-	347,855	-	-	(347,855)	-
Transfer between reserves	-	-	(1,397,475)	1,397,475	-	-	-	-
Net income	-	-	-	-	-	-	3,478,552	3,478,552
Balance at December 31, 2025	\$ 47,578,977	\$ 10,777,706	\$ -	\$ 1,745,330	\$ 20,826,797	\$ (6,692,276)	\$ 760,000	\$ 74,996,534

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

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

STATEMENTS OF CASH FLOWS

For the years ended December 31, 2025, and 2024

	<u>2025</u>	<u>2024</u>
Cash flows from operating activities:		
Net income	\$ 3,478,552	\$ 3,855,269
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	344,807	374,569
Allowance for estimated credit losses	2,441,894	1,621,467
Amortization of discount on purchased loans portfolio	(176,447)	(178,506)
Amortization of discount on investment securities, net	(991)	(101,406)
Amortization of deferred acquisition costs - Goodwill	40,000	40,000
Decrease in deferred loan origination costs	189,770	(31,099)
Amortization of right-of-use asset	38,189	31,977
Gain on sale and disposal of fixed assets	12,750	(28,413)
Dividends from cooperative entities	(688,955)	(637,741)
Decrease (Increase) in interest receivable	24,916	129,279
Decrease (Increase) in other assets	(288,123)	759,394
Increase (Decrease) in accounts payable and accrued expenses	219,878	26,255
Net cash provided by operating activities	<u>5,636,240</u>	<u>5,861,045</u>
Cash flows from investing activities:		
Increase in loans, net	(11,634,430)	(8,925,049)
Recovery of loans charged-off	317,538	418,818
(Increase) Decrease in certificates of savings	(100,000)	(1,600,000)
Acquisition of equipment and improvements, net	(141,805)	(193,016)
Acquisition of investments	(11,348,000)	(9,940,000)
Maturity and repayment of investments	19,413,855	18,613,995
Net cash used in investing activities	<u>(3,492,842)</u>	<u>(1,625,252)</u>
Cash flows from financing activities:		
Decrease in deposit and certificates of deposit, net	(545,858)	(2,734,898)
Members' additional investment in shares	3,913,690	3,919,739
Members' withdrawals of shares	(4,286,273)	(3,940,693)
Repayment of operating lease obligation	(38,189)	(31,977)
Net cash used by financing activities	<u>(956,630)</u>	<u>(2,787,829)</u>
Net increase (decrease) in cash and equivalents	1,186,768	1,447,964
Cash and cash equivalents at beginning of period	18,557,818	17,109,854
Cash and cash equivalents at end of period	<u>\$ 19,744,586</u>	<u>\$ 18,557,818</u>

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

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

1. ORGANIZATION AND REGULATORY MATTERS

Organization

Cooperativa de Ahorro y Crédito San Rafael (San Rafael Cooperativa) (“the Credit Union”) is organized according to the laws of the Commonwealth of Puerto Rico. The Credit Union is regulated by Act Number 255 of October 28, 2002, known as “Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002”. Credit unions in Puerto Rico are regulated by “Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico”, also known as COSSEC by its Spanish acronym.

The Credit Union is a non-profit organization and is primarily engaged in receiving savings from its members in the form of shares and deposits (from non-members in the form of deposits) and providing its members with sources of financing and investment. The Credit Union headquarters are located in the municipality of Quebradillas and maintains three (3) branches in the municipalities of Quebradillas, Peñuelas and San Germán. As of December 31, 2025, the Credit Union has 31,673 members and 1,628 non-members.

The Credit Union provides comprehensive financial services including, but not limited to, personal loans, mortgages, auto loans, commercial loans, secured loans, among others. Additionally, it offers a wide variety of deposit products, online transactions, vehicle registration tags, among others.

The shares and deposits of Credit Unions in Puerto Rico are insured by COSSEC up to \$250,000 per depositor.

Regulatory Standards

Below are the most significant regulatory standards:

Undistributed Capital Reserve

Credit Unions shall maintain an undistributed capital reserve known as undistributed capital reserve. Thirty-five percent (35%) of the undistributed capital reserve shall be held in liquid assets.

The Credit Unions must maintain a minimum amount of undistributed capital of eight percent (8%) of the total assets at risk. The following shall be considered as elements of the undistributed capital reserve (to determine the percentage of the same on assets at risk) according to Act 255:

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

1. The undistributed capital reserve, including the amount accumulated by the Credit Union up to the effective date of this Act, after deducting any accumulated or current losses.
2. Any reserves of capital made by the Credit Union, except for the reserve for unrealized gains or losses in marketable securities available for sale as required by the pronouncement issued by the FASB.
3. Fifteen percent (15%) of the undistributed retained earnings by the Credit Union.
4. The portion of reserves established by the Credit Union to absorb potential future losses on loans or financing that are not in arrears.
5. Capital obligations issued by the Credit Union and any other financial instruments expressly authorized by the Corporation (COSSEC) for inclusion as part of the undistributed capital.
6. Other elements established by the Corporation (COSSEC) through administrative determination.

As of December 31, 2025, and 2024, the Credit Union exceeds the statutory requirement for undistributed capital. The undistributed capital ratio as of December 31, 2025, and 2024, is 32.07% and 30.56%, respectively. The computation of the undistributed capital ratio on assets at risk is presented in Note 23.

Restricted Cash

The Credit Union is required to maintain a minimum level of cash for normal and current operations. Act 255 “Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002” requires the following:

- a. Thirty-five percent (35%) of the undistributed capital reserve shall be held in liquid assets.
- b. Any Credit Union whose undistributed capital reserve is less than eight percent (8%) of the total risky assets shall set aside and incorporate annually into the undistributed capital, twenty-five percent (25%) of its net savings until the reserve has reached and is maintained at eight percent (8%) of the assets at risk. Any Credit Union whose undistributed capital has reached and is maintained at eight percent (8%) of its assets at risk shall have discretion to reduce the contribution to the undistributed capital to no less than five percent (5%). As of December 31, 2025, and 2024, the Credit Union contributed \$173,928 and \$190,877, respectively, as undistributed capital, which represents five (5%) of its net income, respectively, without considering federal funds that are not subject to statutory reserves.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

- c. Fifteen percent (15%) of demand deposits shall be maintained in liquid funds.
- d. Fifteen percent (15%) of the total certificates shall be maintained in liquid funds, excluding those with a maturity date within the next thirty (30) days, in which case twenty-five percent (25%) shall be maintained, and certificates that are pledged, in which case liquid funds do not need to be maintained.
- e. A monthly cumulatively eight-point thirty-three percent (8.33%) for specific account deposits until reaching one hundred percent (100%) shall be maintained.

As a result of the requirements of the aforementioned Act 255, we present below the calculation of the required liquidity as of December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Required funds:		
Undistributed capital reserve (35% required)	\$ 3,772,197	\$ 3,622,535
Deposits and certificates of deposits - maturity more than 30 days	22,568,651	22,401,022
Deposits for special events	885,297	1,031,418
Certificates of deposits - maturity less than 30 days	602,000	942,228
Total funds required	<u>27,828,145</u>	<u>27,997,203</u>
Total funds available	75,432,620	80,122,830
Funds in excess	<u>\$ 47,604,475</u>	<u>\$ 52,125,627</u>

Undistributed Earnings

The Board of Directors shall arrange for the distribution of the net surpluses accumulated by the Credit Union at the end of each year, after amortizing any accumulated losses, if any, and after making contributions to the undistributed reserve, the provision for possible loan losses, and the mandatory and voluntary reserves, as provided by Act 255.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

The surpluses may be distributed based on a refund or rebate, computed considering the patronage of interest charged, or a combination of such a refund coupled with the payment of dividends on shares paid and not withdrawn at the end of the calendar year, in the proportions and amounts determined by the Board of Directors. Any surplus distribution shall be made by crediting shares, never in cash.

Unclaimed Accounts

The cash and other liquid assets held by the Credit Union that have not been claimed or have not been subject to any transaction for five (5) consecutive years, except for amounts from shares accounts, shall be transferred to the Credit Union's social capital reserve or to its undistributed capital reserve, at the option of the Credit Union. Neither the imposition of service charges nor the payment of interest or dividends shall be considered a transaction or activity in the account.

On or before sixty (60) days after the closure of the Credit Union's fiscal year, it shall have the obligation to notify the owners of inactive accounts that they will be subject to transfer. This shall be done by publishing a list in a visible place of the Credit Union's branches and service offices for a period of ninety (90) consecutive days. Simultaneously, a notice shall be published in a newspaper of general circulation in Puerto Rico, entitled "Notice of Unclaimed Cash and Other Liquid Assets in the Possession of Cooperativa de Ahorro y Crédito San Rafael (San Rafael Cooperativa)". The expenses incurred by the Credit Union in connection with the publication of the notice shall be proportionally deducted from the balance of each unclaimed account.

Any person who, during the ninety (90) day period, provides credible evidence of ownership of one or more accounts identified in the list, has the right to have them removed from the list and not be subject to transfer to the aforementioned reserves. After the transfer of an account or other liquid assets to the capital reserves, claims submitted no later than five (5) years from the transfer shall be admitted. In such cases, the Credit Union may impose administrative charges corresponding to the processing of the claim.

In accordance with these provisions, pursuant to Act 255, share accounts, deposits, and reserves of the Credit Union shall be exempt from the provisions of Act 36 of July 28, 1989, as amended, known as the "Ley de Dinero y Otros Bienes Líquidos Abandonados o no Reclamados".

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

“Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico (COSSEC)”

The “Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico” was created by Act No. 114 of August 17, 2001, as amended, an entity that supervises and insures Credit Unions in Puerto Rico. Additionally, it supervises various types of Credit Unions under Act No. 239 of September 1, 2004, as amended. This law provides, among other things, that:

- a. The maximum combined amount of shares and deposits insurable by a member or depositor shall be two hundred and fifty thousand dollars (\$250,000) for Credit Unions.
- b. Each insured credit union shall maintain with the Corporation, as a capital contribution and as determined by it, an amount equal to one percent (1%) of the total shares and deposits held as of June 30 of each year of operations, as declared in the certified statement of shares and deposits or in the certified financial statements required by this Act. Likewise, it shall establish rules and procedures for determining the annual increase that must be required of such a capital contribution by reason of an increase in insured shares and deposits.
- c. When the sum of free reserves, not committed to the payment of losses, and the total capital of the Corporation exceeds two percent (2%) of the total insured shares and deposits, the Corporation will use said excess to pay interest on capital. Such interest shall be determined based on the average yield of the Corporation's total assets for the twelve (12) months preceding the date of payment, reduced by one percent (1%).
- d. Each Credit Union shall pay an annual premium based on actuarial reports. The Board of Directors of COSSEC may determine higher tariff rates provided that actuarial studies supporting them are available.

As of December 31, 2025, and 2024, the Credit Union had fulfilled the investment required by COSSEC amounting to \$2,579,666 and \$2,513,620, respectively, including dividends capitalized up to the date of these financial statements.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

2. SUMMARY OF MOST SIGNIFICANT ACCOUNTING PRACTICES

The most significant accounting practices followed by the Credit Union are in accordance with industry practices, Act 255 mentioned above, regulations issued by COSSEC, and with generally accepted accounting principles in the United States of America. The most significant practices are as follows:

Accounting Standards in accordance with Generally Accepted Accounting Principles in the United States of America

Shares and Undistributed Earnings

Credit Unions in Puerto Rico present members' shares in the members' equity section of the balance sheet. Accounting principles require that shares be presented in the members' deposit section of the same statement. Additionally, they recognize the distribution of their surplus by charging retained earnings, whereas accounting principles require such distributions to be recognized as interest expenses. If these items had been classified in accordance with Generally Accepted Accounting Principles in the United States of America, the total deposits would increase, and the members' equity would decrease by \$47,578,977 and \$47,191,559 as of December 31, 2025, and 2024. Additionally, net income would decrease, and interest expenses would increase by \$760,000 and \$1,400,000 for the year ended December 31, 2025, and 2024.

Shares are accounted for using the cash method. This method is generally accepted by Credit Unions in Puerto Rico. The Credit Union does not issue share certificates representing common stock. However, a statement is maintained for each member showing their participation in the Credit Union's capital balance. The Credit Union's capital is not limited in amount and consists of payments made by members to subscribe to shares and the distribution of dividends in shares. According to the Credit Union's Regulations, the par value of shares shall not be less than ten dollars (\$10). Pursuant to this regulation, each member must subscribe to at least twelve (12) shares per year.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

Special Reserves

Act 255, dated October 28, 2002, establishes that the Board of Directors of any credit union may arrange for periodic contributions to voluntary reserves, provided that such reserves have been previously approved by the general assembly of members or delegates. Voluntary reserves may be established for any legitimate purpose that advances the interests of the Credit Union or the Credit Union Movement. The use of such reserves must comply with the purpose established in the Credit Union's Internal Regulations.

On March 2, 2009, COSSEC issued Circular Letter 09-01, which establishes the accounting treatment for the establishment of provision for possible loan losses and for the use of voluntary capital reserves. This letter indicates that "the use of any voluntary reserve must be recognized by reducing the specific voluntary reserve, as approved by the general assembly of members or delegates, and in accordance with the Credit Union's regulations, and as an increase in surpluses." Accounting principles require that any provision must be recognized as a charge to its operations for the year in which the reserve is required. If these items had been classified in accordance with generally accepted accounting principles in the United States of America, such reserves would be eliminated, and the total undistributed earnings would increase by \$20,826,797 and \$18,630,028 as of December 31, 2025, and 2024. Here is a brief description of the mentioned reserves:

Required Reserves

Reserve for Contingencies – Circular 2021-02 - This reserve is required by Circular Letter 2021-02 issued by COSSEC to strengthen and maintain adequate levels of capitalization in light of the changes resulting from the implementation of the new accounting pronouncement known as "Current Expected Credit Losses" (CECL). During the year 2025, COSSEC required transferring this reserve to the Regulatory Reserve for Institutional Resilience (RRRI).

Regulatory Reserve for Institutional Resilience (RRRI) – In anticipation of the transitional period for the effectiveness of the CECL Contingency Reserve, and in order to preserve a regulatory protection mechanism, COSSEC established the creation of this reserve as a permanent structural protection mechanism that allows Credit Unions to maintain their financial stability and operational capacity in adverse scenarios. The balance that existed in the Contingency Reserve Required by COSSEC was transferred to this reserve.

Voluntary Reserves

Contingency Reserve - This reserve was created to mitigate any extraordinary losses that could affect the economic operations of the Credit Union.

Reserve for Institutional Development – This reserve was created to reduce the economic impact on operations related to the investment in the development and implementation of new projects.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

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Social Capital Reserve – This reserve was created to transfer those inactive accounts of more than five (5) years. If any person claims such account before the five (5) years of being reserved, the Credit Union will return that amount minus an administrative charge which will be deducted from the customer's balance at the time of the claim.

Community Development Financial Institutions (CDFI) Funds Reserve – This reserve was created when the Credit Union received federal funds under the CDFI program, according to the federal agreement. Note 19 includes information on the use of federal funds.

The balance of voluntary reserves for the years ending December 31, 2025, and 2024, are presented below:

	<u>2025</u>	<u>2024</u>
Voluntary reserves	\$ 15,831,381	\$ 13,634,612
Federal Funds Reserve "CDFI"	4,995,416	4,995,416
Total voluntary reserves	\$ 20,826,797	\$ 18,630,028

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NOTES TO THE FINANCIAL STATEMENTS

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Summary of Differences between Generally Accepted Accounting Principles (GAAP) and COSSEC

Below is a summary of the most significant effects of the differences between regulatory accounting practices (Regulatory Financial Statements) and the Generally Accepted Accounting Principles in the United States of America (US GAAP).

<u>Statement of Financial Condition</u>	<u>Regulatory Financial Statements</u>	<u>Adjustments to conform US GAAP</u>	<u>US GAAP Financial Statements</u>
ASSETS			
Cash and savings certificates	\$ 29,544,630	\$ -	\$ 29,544,630
Investment in securities	45,854,278	-	45,854,278
Loans, net of reserve for expected credit losses	139,339,139	-	139,339,139
Interest receivable	1,147,956	-	1,147,956
Investments in cooperative entities	11,466,792	-	11,466,792
Property and equipment, net of accumulated depreciation	2,859,059	-	2,859,059
Other assets	2,296,734	-	2,296,734
Total assets	\$ 232,508,588	\$ -	\$ 232,508,588
LIABILITIES AND MEMBERS' EQUITY			
Liabilities:			
Deposits, shares and certificate of deposits	\$ 155,872,426	\$ 47,578,977	\$ 203,451,403
Accounts payable and accrued expenses	1,639,628	-	1,639,628
Total liabilities	157,512,054	47,578,977	205,091,031
Members' equity:			
Shares, par value of \$10	47,578,977	(47,578,977)	-
Undistributed capital reserve	10,777,706	-	10,777,706
Reserve for contingencies - Circular Letter 2021-02	1,745,330	-	1,745,330
Other voluntary reserves	20,826,797	(20,826,797)	-
Accumulated net comprehensive loss	(6,692,276)	-	(6,692,276)
Undistributed earnings	760,000	20,826,797	21,586,797
Total members' equity	74,996,534	(47,578,977)	27,417,557
Total liabilities and members' equity	\$ 232,508,588	\$ -	\$ 232,508,588
Statements of Income			
Interest income	\$ 14,448,253	\$ -	\$ 14,448,253
Interest expense	(2,621,032)	(760,000)	(3,381,032)
Net interest income	11,827,221	(760,000)	11,067,221
Provision for expected credit losses (CECL)	(2,441,894)	-	(2,441,894)
Income after provisions CECL	9,385,327	(760,000)	8,625,327
Other income	2,749,108	-	2,749,108
General, administrative and other expenses	(8,655,883)	-	(8,655,883)
Net income	\$ 3,478,552	\$ (760,000)	\$ 2,718,552

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NOTES TO THE FINANCIAL STATEMENTS

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Accounting Standards Consistent with Generally Accepted Accounting Principles in the United States of America

Use of Estimates

The Credit Union's Management uses estimates to determine certain accruals and provisions in the accompanying financial statements. However, the use of estimates in the financial statements could present information that may not be in accordance with the actual items that will affect the financial statements.

Reclassification

Certain reclassifications are made in the Credit Union's financial statements to adjust related assets and liabilities or to conform them to the required presentation according to Generally Accepted Accounting Principles in the United States of America. Additionally, certain reclassifications were made to the financial statements for the period ended December 31, 2024, to conform them to the presentation of the financial statements for the period ended December 31, 2025. These reclassifications did not affect the Credit Union's results of operations.

Tax Matters

Tax exemptions

Act 255, as mentioned above, establishes that Credit Unions, their subsidiaries, or affiliates shall be exempt from all kinds of taxation, except as indicated below, on income, property, patent, or any other contribution imposed or that may be imposed by the Commonwealth of Puerto Rico or any political subdivision thereof.

All shares and securities issued by the Credit Unions and by any of their subsidiaries or affiliates shall be exempt, both at their full value and in the dividends or interest paid under them, from all kinds of taxation on income, property, patent, or any other contribution imposed.

However, interest or dividends received by members or depositors may be subject to income tax if the amount received exceeds the exemption limits established by the Internal Revenue Code for New Puerto Rico.

Credit Unions and their subsidiaries or affiliates are exempt from the payment of fees, including the payment of charges for licenses, patents, permits, and registrations, from the payment of charges, fees, stamps, or proofs of internal revenue concerning their registration in the Property Registry, among other exemptions according to Article 6.08 of Act 255.

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Applicable Taxes

Act Number 40 of June 30, 2013, known as the "Tax Burden Adjustment and Redistribution Act", amended Article 6.08 of Act Number 255, *Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002*, as amended, to impose the Sales and Use Tax (SUT) established in Sections 4020.01 and 4020.02, the tax authorized by Section 6080.14, as well as the payment of excise taxes, taxes under Chapter 2, Subtitle C of the Code, as amended.

Act Number 159 of September 30, 2015, amended Act Number 1 of 2011, the Internal Revenue Code of P.R.; amends Act Number 255 of 2002; Act Number 239 of 2004 and Act Number 42 of 2015 to, among other things, impose a 4% tax effective October 1, 2015, on services rendered to other merchants, commonly known as B2B.

Act Number 40 of April 16, 2020, requires Credit Unions and other taxpayers, under certain conditions, to submit supplementary information, underlying the financial statements, which have been subjected to audit procedures applied in the audit of the financial statements carried out by a Certified Public Accountant (CPA) with a valid license in Puerto Rico. The Act applies to Credit Unions whose turnover is equal to or greater than \$10 million for tax years beginning after December 31, 2019.

Cash and Cash Equivalents

The Credit Union considers cash and equivalents to include current accounts in local banks, petty cash, cash held in branches, savings accounts, Money Market Funds, and savings certificates with a maturity of less than ninety (90) days.

Loans to Members and Non-Members

The Credit Union grants personal loans to its members up to \$50,000 and mortgage loans up to the maximum allowed under Regulation 7051, and to non-members in personal loans limited to the funds they have deposited in the Credit Union. Loans granted to members and non-members are documented according to the practices used in the administration of financial institutions, which are recognized as sound practices and in the public's best interests.

Loans receivable are recognized when the funds are disbursed and the transaction is evidenced by a promissory note or loan agreement, and when requirements have been met, subject to policies or standards approved by the Board of Directors or the corresponding governing bodies. Regardless of the guarantees and collateral offered, no credit union shall grant a loan to any person unless it evidences and documents the existence of reliable sources for repayment. These sources may be the funds held at the Credit Union and retained by it, including in the case of non-members, liquid assets as provided in Article 2.03 of Act 255.

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The Credit Union may grant, among other services to members and non-members, personal loans, mortgage loans, auto loans, lines of credit, refinancing, commercial loans, collateralized loans, subject to the adoption and enforcement of credit assessment policies and procedures, specifically adopted for commercial financing implemented through commercial credit officers, duly trained for such services.

Allowance for “Current Expected Credit Losses”

Accounting Basis:

The accompanying financial statements incorporate the requirements of ASU No.2016-13 "Current Expected Credit Losses" ("CECL"), which introduces significant changes in accounting standards for the recognition of expected credit losses (CECL) for financial assets recognized in the financial statements.

Scope:

The scope of this new pronouncement applies to entities that hold financial assets and net investments that are not accounted for at fair value through net income. The pronouncement modifies the way in which the net realizable value in loans, available-for-sale investments, trades receivable, net investments in leases, credit exposures outside the financial statements, reinsurance receivable, and any other financial asset not excluded from the scope that has the contractual right to receive cash are determined. It is required that a financial asset (or group of financial assets) valued at amortized cost be presented at the net amount expected to be collected. The provision for credit losses is a valuation account deducted from the amortized cost basis of the financial asset(s) to present the net book value at the amount expected to be collected from the financial asset. Additionally, there are certain assets not recognized in the balance sheets where the impact on the CECL allowance needs to be evaluated, such as credit cards and lines of credit.

Management of inherent credit risks and asset quality:

The Credit Union’s Management monitors the risks associated with its loan and investment portfolio, as the main financial assets subject to inherent credit and quality risk. They establish lending standards for credit approval that set parameters and conditions under circumstances and practices for approving loans. The regulations established by the regulator COSSEC set parameters for credit unions to comply with in determining their credit policies considering risk and quality factors. Additionally, the Credit Union hires advisors to monitor its investment portfolio, as well as the evaluation of its credit policies when deemed appropriate.

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Allowance for credit losses ("ACL")

The Credit Union establishes an estimate for credit losses ("ACL") for its loan portfolio based on its estimate of credit losses over the remaining contractual term of the loans, considering quantitative and qualitative factors. An ACL is recognized for all loans, including those originated and purchased from inception, with a corresponding charge to the provision for credit losses. Losses on loans are charged to the allowance for credit losses, and recoveries are used to reduce the ACL adjustment.

The Credit Union uses a methodology to estimate the ACL, which includes a reasonable forecast period and is supported by economic analysis to estimate credit losses, considering quantitative and qualitative factors, as well as economic outlooks. As part of this methodology, Management evaluates several macroeconomic scenarios provided by third parties. As of December 31, 2025, Management applied probability weights to the outcomes of the selected scenarios.

The application of probability includes baseline scenarios, both optimistic and pessimistic scenarios. The weights and variables applied are subject to quarterly evaluation as part of the ACL management process. The Credit Union considers additional macroeconomic factors as part of its qualitative adjustment framework. The macroeconomic variables chosen to estimate credit losses were selected by combining quantitative procedures with expert judgment. These variables were determined to be the best factors of expected credit losses within the Credit Union's loans portfolio, and include factors such as the unemployment rate, various measures of employment levels, housing prices, gross domestic product, and available sources of income, among others.

The loss estimation framework includes a reasonable period supported by five years of experience for evaluating loan portfolios. The Credit Union developed quantitative models at the loan level distributed by geography and loan type. This segmentation was determined by evaluating their risk characteristics, including default patterns, repayment source, collateral type, and loan type, among others. The model framework includes comparable risk models to generate defaults and prepayments over the life, and other loan-level modeling techniques to estimate loss severity. Recoveries for future losses are considered as part of the loss severity model. These parameters are estimated by combining internal risk factors with macroeconomic expectations. Loans were classified into homogeneous loans in different categories of size and type to conduct similar loan analysis in determining the ACL.

Internal risk factors considered in the models may include borrower credit scores, loan-to-value ratio, delinquency status, risk ratings, interest rate, loan term, loan age, and collateral type, among others.

The credit cards portfolio, due to its revolving nature, does not have a specified maturity date. To estimate the average remaining term of this segment, management evaluated portfolio payment behavior based on internal historical data.

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Accounting method for determining CECL:

The Credit Union chose to use the "Vintage Cumulative Loss Rate" method (also known as the "Vintage Cumulative Loss Rate" method). Cumulative loss rate method, understanding that this methodology meets an estimate of expected credit losses. This credit loss modeling approach estimates the expected loss of a loan portfolio over a given period. Losses are used for each group of homogeneous financial assets, net of recoveries and the ratio is determined of loss of each group, for the loans granted per year. By obtaining the loss ratio, multiply by each category of homogeneous financial assets and the total reserve is obtained.

Foreclosed assets and others:

An entity will measure expected credit losses based on the fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. An entity will not expect the default on the amortized cost basis to be zero solely based on the current value of the financial asset(s), but will also consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured by similar collateral. Consideration should not be based solely on the value of the collateral; instead, the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured by similar collateral should also be considered.

Off Balance Sheet Items (Balances on credit cards and lines of credit available):

For credit exposures off the balance sheet, an entity shall present the estimate of credit losses. The estimated expected credit losses on an off-balance-sheet financial instrument shall be recorded separately from the provision for credit losses related to a recognized financial instrument. In this section, it is mentioned with respect to off-balance-sheet instruments, which are recognized and reported separately to the allowance for credit loss as a liability, based on ASC 326-20-45-2.

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Qualitative basis:

ASU No. 2016-13, also known as the Current Expected Credit Losses (CECL) standard, includes a qualitative basis that describes the factors to be considered in estimating expected credit losses for financial assets. This qualitative basis is important because it helps ensure that estimates of expected credit losses are reliable and consistent.

Some of the highlights of the qualitative basis include:

1. Economic situation of the country: If the economy is in recession, institutions may have more difficulty meeting their financial obligations, which could increase the risk of default and expected credit losses.
2. Interest rate: Monetary policy decisions affecting interest rates can impact loan profitability, which could influence provisions for credit losses.
3. Industry and economic sectors: Some industries and sectors may be more prone to experiencing financial difficulties than others, which could affect the credit quality of an entity's loan portfolio.
4. Market: If there is intense competition in the credit market, entities may have to take on more credit risks to maintain profitability, which could increase the risk of default and expected credit losses.
5. Global economic and political conditions: Economic and political conditions in other countries can also affect the local economy and the credit quality of an entity's loan portfolio.

The qualitative basis of ASU No. 2016-13 is important because it helps ensure that estimates of expected credit losses are reliable and consistent. It is crucial for entities to continue monitoring and adapting their processes and controls to comply with the requirements of ASU 2016-13 and to maintain a robust assessment of their credit risks. Ultimately, this will enable them to make informed and prudent decisions regarding lending and managing their existing loan portfolio.

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Direct Costs in Loans Origination

The Credit Union adopted ASC 310-20 “Receivables—Nonrefundable Fees and Other Costs”, which requires deferring and amortizing direct costs in loan origination and recognizing income generated in lending activity through the life of loans.

Investments in Securities

Investments in securities consist mainly of securities issued by the United States government and securities collateralized by mortgages on residential, commercial, and other assets, as permitted classifications under Act 255 of 2002, as amended.

The Credit Union records investments in accordance with the requirements under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 942-320, Investments - Debt and Equity Securities. Additionally, ASC 942-825, Financial Instruments, allows companies, if they choose the option to report some financial assets and liabilities at fair value, and establishes presentation and disclosure requirements designed to facilitate comparison among companies choosing different measurement methods for the same types of assets and liabilities. This pronouncement is effective for the Credit Union as of January 1, 2008. As of December 31, 2025, and 2024, the Credit Union Management chose not to adopt the option to report on some financial assets and liabilities at fair value, other than those detailed in Note 5. The following are the policies for recording investments:

- **Held-to-Maturity Securities:** Investments in held-to-maturity securities are those that Management intends to hold until maturity. These are recorded at cost, adjusted for the amortization or accretion of premiums or discounts, respectively, using the straight-line method. The cost of securities sold for the purpose of determining gains or losses is based on the amortized book value and is derecognized using the specific identification method.
- **Available-for-Sale Securities:** Available-for-sale securities are presented at fair market value. Gains or losses from the difference between book value and market value are presented in the Credit Union's equity section. The institution uses the specific identification method to identify securities sold or retained.

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Amortization of Premiums and Discounts

Premiums and discounts on debt instruments are amortized over the remaining life of the related instrument as an adjustment to its yield using the effective interest method. Dividend and interest income is recognized when earned.

Other-Than-Temporary Impairment of Investment Securities

The decrease in the fair market value of an instrument classified as available-for-sale, determined to be non-temporary, results in an impairment of the instrument's value, which is then recorded at its fair market value. To determine whether the impairment in the value of the instrument is temporary or not, the Credit Union considers all pertinent and available information about the collectability of the instrument, including prior events, current conditions, and reasonable projections and estimates demonstrating the amount of cash to be collected from the instrument. Evidence in this estimate includes reasons for impairment, the duration and severity of impairment, changes in valuation after the fiscal year-end, the projected performance of the issuer, and the overall market condition in the geographic area or industry where it operates. This assessment is conducted annually by the Credit Union's Management. As of December 31, 2025, and 2024, the Credit Union did not recognize losses from non-temporary decreases in marketable securities.

Investments in Cooperative Entities

The Credit Union records its investments in other cooperative entities at cost, increasing them by equity in the Credit Unions' earnings once these are distributed through dividend shares. Investments in cooperative entities, by their nature, do not have a secondary market or are disposed of through sales, so a market value is not determined.

Property and Equipment

Property and equipment are accounted for at their acquisition cost, net of depreciation and amortization. Improvements that extend the useful life of the asset are capitalized. Maintenance and repairs that do not extend the useful life of such assets are charged to the operations in the year they are incurred. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the assets.

Management evaluates the book value of property and equipment when events or changes in circumstances indicate that the book value of such assets cannot be recovered. The recoverability of the asset that will be used and retained is determined by comparing the book value with the future undiscounted cash flows expected to be generated by the asset. If it is determined that impairment of a fixed asset has occurred, the difference between the future undiscounted cash flows and the book value of the property and equipment is recognized against the operations of the year. As of December 31, 2025, and 2024, the Credit Union did not recognize losses from impairment of fixed assets.

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Preferred Shares

The Credit Union, subject to COSSEC approval, may issue preferred shares, the issuance of which may not exceed the total number of common shares issued and outstanding. Preferred shares will not be insured by COSSEC, and holders thereof will not be entitled to vote or participate in the Credit Union's meetings, nor to be appointed to the governing bodies. The Credit Union's authority to issue preferred shares must be approved by the General Members' Meeting. Dividends on preferred shares will be payable in preference to other shares. As of December 31, 2025, and 2024, the Credit Union had no preferred shares outstanding.

Recognition of Interest Income and Expense

Interest income on loans is recognized using the accrual method up to sixty (60) days. Interest is computed on the outstanding balance. Interest expense on certificates of deposit is computed and paid periodically as established in the agreement between the Credit Union and the member or customer at the time of opening. Interest expense on deposit accounts is computed daily based on the daily balance of the account.

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. As a result of recognizing rent expense on a straight-line basis, an amount of deferred rent may be recognized in the balance sheet. The Credit Union's Management evaluated the new ASC 842 ("Leases") statement and determined that its applicability is not material to the Credit Union's financial statements.

Fair Value of Financial Instruments

The Credit Union adopted ASC 820 Fair Value Measurement, which defines the concept of fair value, establishes a consistent framework for measuring fair value, and expands disclosures about fair value measurements. In addition, this pronouncement amended ASC 825 Financial Instruments, and as such, the Credit Union follows ASC 820 in determining the disclosure of the fair value amount of financial instruments.

Determination of Fair Value:

In accordance with ASC 820 provisions, the Credit Union determines fair value based on the price that would receive to sell the asset or paid to transfer liability in an orderly transaction between market participants at the measurement date.

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The Credit Union seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements, following the fair value hierarchy provided by ASC 820.

The fair value hierarchy prioritizes unadjusted quoted prices in active markets for identical assets and liabilities Level 1 and assigns the lowest priority to unobservable inputs Level 3. In some cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy.

The level within the fair value hierarchy in which the fair value measurement is entirely based will be determined based on the lowest-level input that is significant to the entire fair value measurement. Below is a summary of the hierarchy used by the Credit Union to classify various financial instruments:

- Inputs Level 1

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and can be used without adjustment to measure fair value whenever available.

- Inputs Level 2

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. 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.

- Inputs Level 3

Level 3 inputs are unobservable data for the asset or liability. Unobservable information is used to measure fair value to the extent that relevant observable data is not available, allowing for situations where there is little or no market activity for the asset or liability at the measurement date. However, the objective of fair value measurement remains the same, meaning the exit price at the valuation date from the perspective of a market participant holding the asset or owing the liability. Therefore, unobservable inputs will reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

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Net Comprehensive Income

The Credit Union's Management applied ASC 220, Comprehensive Income, which requires the disclosure of comprehensive income. Comprehensive income is the total of: (1) net income plus (2) other changes in net assets that arise from other sources. The Statement of Changes in Partners' Equity presents the analysis of changes in the line item of accumulated other comprehensive income (loss).

3. CASH AND CASH EQUIVALENTS

The Credit Union considers cash and equivalents to be current accounts in banks, petty cash, cash held in Branches, savings accounts, investments in money market funds, and investments in savings certificates with a maturity of less than ninety (90) days. As of December 31, 2025, and 2024, the balance of cash and cash equivalents consisted of the following:

	<u>2025</u>	<u>2024</u>
Non-interest bearing accounts:		
Operating fund and petty cash	\$ 2,204,484	\$ 2,253,248
Cash in banks	2,766,368	1,968,086
Interests bearing accounts:		
Savings accounts	14,423,868	14,155,575
Certificates of savings - maturity less than 90 days	-	-
Total cash and cash equivalents	<u>19,394,720</u>	<u>18,376,909</u>
Restricted cash	349,866	180,909
Total cash and cash equivalents	<u><u>\$ 19,744,586</u></u>	<u><u>\$ 18,557,818</u></u>

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Concentration of Risks

The Credit Union maintains cash in various financial institutions (banks and credit unions) in Puerto Rico. Bank accounts in each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") for \$250,000 per institution, and accounts in Credit Unions are insured by COSSEC, up to a maximum of \$250,000 per institution. As of December 31, 2025, and 2024, the Credit Union held deposits in the "Banco Cooperativo de Puerto Rico" ("hereinafter Bank") totaling \$9,627,280 and \$10,813,302, respectively, whose balances are uninsured. However, pursuant to Article 2.04 of Act 255, Credit Unions are authorized to make deposits in said institution. Additionally, the Credit Union complies with the requirement to maintain deposits in the Bank, the percentage of which is defined in Act Number 79 of September 25, 1992. Said Act amends Act No. 88 of June 21, 1966, which created the Bank.

Below are the uninsured amounts by the FDIC, COSSEC, and the Bank as of December 31, 2024, and 2023.

	<u>Uninsured Deposits</u>	
	<u>2025</u>	<u>2024</u>
Cash in banks	\$ 250,000	\$ 1,159,648
Cash in Credit Unions	3,350,000	3,250,000
Cash in Banco Cooperativo de Puerto Rico	9,627,280	10,813,302
Total	\$ 13,227,280	\$ 15,222,950

Additional Disclosure to the Statement of Cash Flows

The following is additional supplementary information regarding the statement of cash flows:

	<u>2025</u>	<u>2024</u>
Supplemental Disclosure:		
Cash payment for interest in deposits:	\$ 2,627,708	\$ 2,675,382
Financing and investment activities non involving cash:		
Capitalized dividends	\$ 760,000	\$ 1,400,000
Claimed dormant accounts, previously transferred to the reserve for undistributed capital, net	\$ 253,679	\$ 141,702
Transfer to undistributed capital reserve	\$ 173,928	\$ 190,877
Transfer to reserve for contingency - Circular Letter 2021-02	\$ -	\$ 381,753
Change in unrealized gain (loss) on investments	\$ 2,141,835	\$ (349,251)
Undistributed earnings transferred to reserves	\$ 2,196,769	\$ 2,522,639
Retirement of depreciated equipment	\$ 1,227,838	\$ 858,316

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4. CERTIFICATES OF SAVINGS

Certificates of deposit with an original maturity of three months or more consist of funds invested in Banks and Credit Unions. The maturities are presented below:

Maturity	2025	2024
More than three months to a year	\$ 9,800,044	\$ 8,600,044
More than one year	-	1,100,000
Total	\$ 9,800,044	\$ 9,700,044

5. INVESTMENT IN SECURITIES

The Credit Union records investments in accordance with the requirements of ASC 942-320, *Investments - Debt and Equity Securities*, and classified them as available for sale and held to maturity. As of December 31, 2025, and 2024, the investments in securities were as follows:

December 31, 2025 – Available for sale

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss less than 12 Month	Unrealized Loss Greater than 12 Month	Market Value
Municipal Bonds	\$ 21,521,578	\$ 16,417	\$ -	\$ (2,844,204)	\$ 18,693,791
Federal Home Loan Mortgage Corporation	2,503,407	-	-	(287,242)	2,216,165
Federal Farm Credit Bank	8,340,982	-	(8,871)	(1,411,736)	6,920,375
Federal National Mortgage Association	501,335	-	-	(114,081)	387,254
Federal Home Loan Bank	10,401,445	-	-	(2,042,859)	8,358,586
Government National Mortgage Association	18,145	300	-	-	18,445
Total	\$ 43,286,892	\$ 16,717	\$ (8,871)	\$ (6,700,122)	\$ 36,594,616

December 31, 2025 – Held to Maturity

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Municipal Bonds	\$ 498,732	\$ -	\$ (44,368)	\$ 454,364
Federal Home Loan Mortgage Corporation	-	-	-	-
Federal Home Loan Bank	-	-	-	-
Government National Mortgage Association	4,901	113	-	5,014
US Treasury Notes	8,254,462	27,071	-	8,281,533
US Treasury Bill	501,567	798	-	502,365
Total	\$ 9,259,662	\$ 27,982	\$ (44,368)	\$ 9,243,276

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

December 31, 2024 – Available for sale

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss less than 12 Month	Unrealized Loss Greater than 12 Month	Market Value
Municipal Bonds	\$ 23,165,175	\$ 14,797	\$ (6,575)	\$ (3,886,017)	\$ 19,287,380
Federal Home Loan Mortgage Corporation	2,504,142	-	-	(440,576)	\$ 2,063,566
Federal Farm Credit Bank	8,340,031	-	-	(1,753,247)	\$ 6,586,784
Federal National Mortgage Association	501,759	-	-	(145,199)	\$ 356,560
Federal Home Loan Bank	16,449,496	-	-	(2,617,835)	\$ 13,831,661
Government National Mortgage Association	24,162	541	-	-	\$ 24,703
Total	\$ 50,984,765	\$ 15,338	\$ (6,575)	\$ (8,842,874)	\$ 42,150,654

December 31, 2024 – Held to Maturity

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Municipal Bonds	\$ 498,558	\$ -	\$ (71,668)	\$ 426,890
Federal Home Loan Mortgage Corporation	759,620	-	(8,793)	750,827
Federal Farm Credit Bank	1,100,000	-	(3,146)	1,096,854
Federal National Mortgage Association	6,591	183	-	6,774
Federal Home Loan Bank	5,118,018	-	(10,685)	5,107,333
Government National Mortgage Association	1,980,170	15,350	-	1,995,520
Total	\$ 9,462,957	\$ 15,533	\$ (94,292)	\$ 9,384,198

The amortized cost and estimated market value of investments in securities as of December 31, 2025, and 2024, by their maturity, are presented below:

Maturity	2025		2024	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Less than one year	\$ 6,323,374	\$ 6,317,469	\$ 11,699,602	\$ 11,691,708
From one to five years	17,122,994	16,383,767	18,069,978	16,834,074
From five to ten years	18,519,253	15,259,853	13,125,494	10,423,499
More than ten years	10,580,933	7,876,803	17,552,648	12,585,571
Total	\$ 52,546,554	\$ 45,837,892	\$ 60,447,722	\$ 51,534,852

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

6. LOANS

The Credit Union loan portfolio as of December 31, 2025, and 2024, consisted of the following types and classes of financing:

	<u>2025</u>	<u>2024</u>
Commercial:		
Corporations	\$ 2,474,394	\$ 1,504,808
Non-profit entities	197,350	244,326
Total commercial loans	2,671,744	1,749,134
Consumer:		
Personal	76,558,746	73,973,222
Mortgage	39,195,795	35,717,607
Auto	21,638,461	20,198,437
Credit cards	3,698,567	3,208,891
Lines of credit	208,963	210,260
Total consumer loans	141,300,532	133,308,417
Total loans	143,972,276	135,057,551
Allowance for current expected credit losses	(4,577,705)	(3,933,937)
Plus deferred costs in loans origination	(55,432)	(245,202)
Total loans, net	\$ 139,339,139	\$ 130,878,412

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

Allowance for Credit Losses

The movement of the provision for estimated credit losses of loans from the Credit Union as of December 31, 2025, and 2024, is as follows:

<u>December 31, 2025</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 108,951	\$ 3,824,985	\$ 3,933,936
Allowance for credit losses	-	2,441,894	2,441,894
Recoveries of charged-off loans	-	317,538	317,538
Loans write-offs	-	(2,115,663)	(2,115,663)
Balance at the end of the year	<u>\$ 108,951</u>	<u>\$ 4,468,754</u>	<u>\$ 4,577,705</u>

<u>December 31, 2024</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Total</u>
Beginning balance	\$ 108,951	\$ 3,407,441	\$ 3,516,392
Allowance for credit losses	-	1,621,467	1,621,467
Recoveries of charged-off loans	-	418,818	418,818
Loans write-offs	-	(1,622,740)	(1,622,740)
Balance at the end of the year	<u>\$ 108,951</u>	<u>\$ 3,824,986</u>	<u>\$ 3,933,937</u>

Quality Indicators for the Commercial Loan Portfolio

As part of the evaluation of concentration risk of the commercial loans portfolio, the Credit Union implemented a process to assess the quality of commercial credit. For commercial loans, Management conducted an individual risk assessment considering the probability of recovery and the quality of collateral. The Credit Union used the following classifications to evaluate its risk within the portfolio:

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

Follow-up – The loan is adequately secured with collateral as of December 31, 2025, and 2024, but there is potential for deterioration. The debtor's financial information is inconsistent or under-budget, presenting the possibility of short-term liquidity problems. Other typical characteristics of this classification include lack of recent financial information, low capitalization, or industry risks. The primary repayment source remains in good condition, but there is a possibility of needing to use collateral or the assistance of a guarantor to repay the debt. Although this type of loan is current and recovery is understood not to be in doubt, the frequency of payments could be affected.

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

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For the years ended on December 31, 2025, and 2024

Sub-Standard – This type of loan is not adequately protected due to deterioration in the debtor's net capital or collateral impairment. The debtor has clear weaknesses in their financial condition that affect loan recovery. It is likely that the Credit Union will not recover the full amount of the loan. Loans classified in this category are considered impaired and do not accrue interest, so payments received are applied to the principal.

Doubtful – The loan has deficiencies of those presented in the "Sub-standard" category. In addition, the collectability of part or all the loans is highly improbable. The possibility of loss is extremely high, but there are some specific conditions that could be resolved in favor of the debtor and therefore strengthen the likelihood of loan recovery. The loan has not been written off until a clearer view of the effect of the specific conditions mentioned above is obtained. These conditions may include additional capital injection, new collateral, refinancing, or liquidation process. Loans classified in this category are considered impaired and do not accrue interest, so payments received are applied to the principal.

Below is the commercial loan portfolio classified by risk category:

December 31, 2025	<u>Without exception</u>	<u>Follow-up</u>	<u>Sub-standard</u>	<u>Doubtful</u>	<u>Total</u>
Corporations	\$ 2,474,394	\$ -	\$ -	\$ -	\$ 2,474,394
Non-profit organizations	197,350	-	-	-	197,350
Total commercial	\$ 2,671,744	\$ -	\$ -	\$ -	\$ 2,671,744

December 31, 2024	<u>Without exception</u>	<u>Follow-up</u>	<u>Sub-standard</u>	<u>Doubtful</u>	<u>Total</u>
Corporations	\$ 1,504,808	\$ -	\$ -	\$ -	\$ 1,504,808
Non-profit organizations	244,326	-	-	-	244,326
Total commercial	\$ 1,749,134	\$ -	\$ -	\$ -	\$ 1,749,134

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

The Credit Union monitors the aging of its commercial loans portfolio in order to manage credit risk. Below are the categories of aging for the commercial portfolio:

December 31, 2025	Current or				Total	90+ & Not Accrued
	0-60	61-181	181-361	361 or more		
Corporations	\$ 2,474,394	\$ -	\$ -	\$ -	\$ 2,474,394	\$ -
Non-profit Organizations	197,350	-	-	-	\$ 197,350	\$ -
Total commercial	\$ 2,671,744	\$ -	\$ -	\$ -	\$ 2,671,744	\$ -

December 31, 2024	Current or				Total	90+ & Not Accrued
	0-60	61-181	181-361	361 or more		
Corporations	\$ 1,504,808	\$ -	\$ -	\$ -	\$ 1,504,808	\$ -
Non-profit Organizations	244,326	-	-	-	\$ 244,326	\$ -
Total commercial	\$ 1,749,134	\$ -	\$ -	\$ -	\$ 1,749,134	\$ -

The main factor in evaluating the allowance for estimated credit losses in the consumer portfolio is the portfolio's delinquency. According to Regulation 8665 of November 20, 2015, the percentage method assigns the risk of consumer products based on their aging.

Below are the aging categories for the consumer portfolio as of December 31, 2025, and 2024:

December 31, 2025	Days Past Due				Total	90+ & Not Accrued
	Current or 0-60	Delinquency				
		61-180	181-360	360 or more		
Personal	\$ 74,501,503	\$ 1,109,771	\$ 947,472	\$ -	\$ 76,558,746	\$ 2,057,243
Mortgage	38,761,668	-	260,745	173,382	\$ 39,195,795	434,127
Auto	21,390,684	155,440	11,025	81,312	\$ 21,638,461	247,777
Credit cards	3,577,092	109,854	10,501	1,120	\$ 3,698,567	121,475
Lines of credit	208,123	840	-	-	\$ 208,963	840
Total consumer	\$ 138,439,070	\$ 1,375,905	\$ 1,229,743	\$ 255,814	\$ 141,300,532	\$ 2,861,462

December 31, 2024	Days Past Due				Total	90+ & Not Accrued
	Current or 0-60	Delinquency				
		61-180	181-360	361 or more		
Personal	\$ 72,000,742	\$ 1,157,878	\$ 814,602	\$ -	\$ 73,973,222	\$ 1,972,480
Mortgage	35,540,325	3,900	173,382	-	\$ 35,717,607	177,282
Auto	19,924,508	142,952	57,390	73,586	\$ 20,198,436	273,928
Credit cards	3,083,859	80,508	42,119	2,405	\$ 3,208,891	125,032
Lines of credit	207,892	2,369	-	-	\$ 210,261	2,369
Total consumer	\$ 130,757,326	\$ 1,387,607	\$ 1,087,493	\$ 75,991	\$ 133,308,417	\$ 2,551,091

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

Indicators of Consumer Loan Portfolio Quality

The Credit Union offers several types of consumer loans, each of which poses different credit risks. Delinquency, loan history, and loan-to-collateral value are quality indicators that the Credit Union monitors and uses in evaluating the allowance for estimated credit losses in its consumer loan portfolio.

The types of loans comprising the consumer loan portfolio classified according to credit score at the time of origination are presented below:

December 31, 2025	Empirical Distribution				Total
	less than 600	600-650	651-700	701 or more	
Personal	\$ 8,460,410	\$ 8,890,075	\$ 14,817,292	\$ 44,390,969	\$ 76,558,746
Mortgage	4,655,283	2,020,780	4,523,960	27,995,772	39,195,795
Auto	3,660,525	2,268,561	3,630,848	12,078,527	21,638,461
Credit cards	644,945	589,057	947,031	1,517,534	3,698,567
Lines of credit	11,485	12,550	129,967	54,961	208,963
Total consumer	\$ 17,432,648	\$ 13,781,023	\$ 24,049,098	\$ 86,037,763	\$ 141,300,532

December 31, 2024	Empirical Distribution				Total
	less than 600	600-650	651-700	701 or more	
Personal	\$ 6,364,679	\$ 7,543,427	\$ 15,496,357	\$ 44,568,759	\$ 73,973,222
Mortgage	2,678,305	2,106,055	6,514,832	24,418,415	35,717,607
Auto	2,451,482	1,804,491	2,748,231	13,194,232	20,198,436
Credit cards	453,007	437,591	972,364	1,345,929	3,208,891
Lines of credit	20,110	107,109	20,213	62,829	210,261
Total consumer	\$ 11,967,583	\$ 11,998,673	\$ 25,751,997	\$ 83,590,164	\$ 133,308,417

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

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For the years ended on December 31, 2025, and 2024

The Loan to Value (LTV) ratio of the collateral is the percentage calculated by dividing the principal balance of the loan, by the collateral value at the time of origination. In recent years, residential real estate markets have experienced declines in property values. The loan-to-value ratio does not necessarily reflect the repayment performance but provides an indicator of collateral value and exposure for the Credit Union. In cases where the loan cannot be recovered, the loss the Credit Union would incur should be limited to the excess of the net realizable value of the property compared to the loan balance. The distribution of the mortgage loan portfolio according to the aforementioned ratio is presented below.

	Loan-to-Value (LTV) Ranges				Total
	0-80%	81-90%	91-100%	>100%	
December 31, 2024					
Mortgage	\$ 33,601,908	\$ 5,341,264	\$ 120,512	\$ 132,110	\$ 39,195,794
December 31, 2023					
Mortgage	\$ 29,568,445	\$ 5,890,390	\$ 122,307	\$ 136,465	\$ 35,717,607

Below, we present a summary of the delinquent loan portfolio by type of loan as of December 31, 2025, and 2024:

	Unpaid Principal Balance	Specific Allowance	Accrued Interest
December 31, 2025			
Consumer:			
Personal	\$ 2,057,243	\$ 835,136	\$ 134,523
Mortgage	434,127	43,390	5,241
Auto	247,777	26,944	17,041
Credit card	121,475	38,769	-
Lines of credit	840	42	78
Total consumer	\$ 2,861,462	\$ 944,281	\$ 156,883
December 31, 2024			
Consumer:			
Personal	\$ 1,972,480	\$ 468,946	\$ 133,399
Mortgage	177,282	177	8,367
Auto	273,928	68,584	29,065
Credit card	125,032	22,858	-
Lines of credit	2,369	118	221
Total consumer	\$ 2,551,091	\$ 560,683	\$ 171,052

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

Below, we present a summary of the modified loans classified as restructurings, and those restructured loans that subsequently became delinquent as of December 31, 2025, and 2024:

December 31, 2025	Restructured loans			Restructured loans in delinquency		
	Quantity of Loans	Principal Balance	Reserve Impact	Quantity of Loans	Principal Balance	Reserve Impact
Consumer:						
Personal	61	\$ 828,961	\$ 506,370	43	\$ 621,338	\$ 473,055
Auto	4	61,232	45,608	4	61,232	45,608
Lines of credit	10	35,369	26,527	10	35,369	26,527
Total consumer	75	\$ 925,562	\$ 578,505	57	\$ 717,939	\$ 545,190

December 31, 2024	Restructured loans			Restructured loans in delinquency		
	Quantity of Loans	Principal Balance	Reserve Impact	Quantity of Loans	Principal Balance	Reserve Impact
Consumer:						
Personal	70	\$ 853,153	\$ 457,311	41	\$ 590,173	\$ 442,630
Auto	4	82,133	60,292	4	82,133	60,292
Lines of credit	14	31,471	23,602	14	31,470	23,602
Total consumer	88	\$ 966,757	\$ 541,205	59	\$ 703,776	\$ 526,524

Below is a summary of the types of loans concession for restructured loans during the years ending December 31, 2025, and 2024:

	2025			2024		
	Interest rate	Due Date	Total	Interest rate	Due Date	Total
Consumer:						
Personal	\$ 594,275	\$ 234,686	\$ 828,961	\$ 590,174	\$ 262,979	\$ 853,153
Auto	61,232	-	61,232	82,133	-	82,133
Lines of credit	35,369	-	35,369	31,471	-	31,471
Total consumer	\$ 690,876	\$ 234,686	\$ 925,562	\$ 703,778	\$ 262,979	\$ 966,757

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

7. OFF BALANCE SHEETS FINANCIAL INSTRUMENTS RISK IN THE STATEMENT OF FINANCIAL POSITION

In the normal course of business, the Credit Union uses certain risk instruments that are not recognized in the balance sheet to meet the financing needs of its members. These financial instruments include commitments to extend credit and credit cards. These instruments possess, at various levels, elements of credit risk exceeding those recognized in the balance sheet. The nominal or contractual amounts of such instruments, which are not included in the balance sheet, are indicative of the Credit Union's activities in a particular financial instrument.

The Credit Union uses credit standards similar to those used for financial instruments reported in the statement of financial condition, when making commitments and conditional credit guarantees. Commitments to extend credit are contractual obligations to lend funds to members at a predetermined interest rate for a specific period of time. Because many of these commitments expire without any disbursement being made, the total balance of commitments does not necessarily represent future disbursements required.

The Credit Union evaluates the creditworthiness of its members individually before extending credit and determines, through credit assessment of the applicant, the amount of collateral to be obtained as a condition to the requested credit. The amount of commitment to extend credit as of December 31, 2025, and 2024, is composed of the following:

	<u>2025</u>	<u>2024</u>
Credit cards	\$ 1,734,939	\$ 2,028,316
Lines of credit	\$ 68,939	\$ 189,382

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COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

8. INVESTMENTS IN COOPERATIVE ENTITIES

Investments in cooperative entities, as of December 31, 2025, and 2024, consist of the following:

	2025	2024
Corporación para la Supervisión y Seguro de Cooperativas de Ahorro y Crédito (COSSEC)	\$ 2,579,666	\$ 2,513,620
Banco Cooperativo de Puerto Rico	2,872,906	2,602,571
Cooperativa de Seguros de Vida de Puerto Rico (COSVI)	776,815	776,816
Fondo de Inversión y Desarrollo Cooperativo (FIDECOOP)	399,782	399,783
Cooperativa de Seguros Múltiples de Puerto Rico	4,835,563	4,477,374
Liga de Cooperativas de Puerto Rico	2,060	2,060
Other investments in cooperative entities	-	5,613
Total	\$ 11,466,792	\$ 10,777,837

9. PROPERTY AND EQUIPMENT

As of December 31, 2025, and 2024, the property and equipment consisted of the following:

	2025	2024
Property and equipment subject to depreciation		
Buildings	\$ 2,630,155	\$ 2,630,155
Improvements	1,818,572	1,971,570
Furniture and equipment	2,834,199	3,333,949
Software	1,146,758	1,539,269
Vehicles	250,143	234,554
Right-of-use of asset	178,391	178,391
Total depreciable assets	8,858,218	9,887,888
Accumulated depreciation	(6,798,855)	(7,571,500)
Total net depreciable assets	2,059,363	2,316,388
Assets not subject to depreciation		
Land	799,696	799,696
Total property and equipment, net	\$ 2,859,059	\$ 3,116,084

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

10. OTHER ASSETS

Other assets as of December 31, 2025, and 2024 are presented below:

	<u>2025</u>	<u>2024</u>
Foreclosed properties and vehicles, net	\$ 205,250	\$ 149,823
Godwill net	613,333	653,333
Surety, insurance and prepaid expenses	620,794	675,269
Deposit for equipment	785,584	193,350
Supplies	44,700	40,871
Other accounts receivable	27,073	57,439
Total	<u>\$ 2,296,734</u>	<u>\$ 1,770,085</u>

11. DEPOSITS

Regular savings accounts accrue interest of approximately 1% and 0.75% for the years 2025 and 2024, respectively, computed on the average daily balance and credited quarterly. It is the Credit Union's policy to allow savings withdrawals on any business day. However, when the Board of Directors deems it necessary, it may require members to notify them of their intention to make withdrawals up to thirty (30) days in advance.

Deposits as of December 31, 2025, and 2024 consist of the following:

	<u>2025</u>	<u>2024</u>
Deposits Accounts of members and non-members	\$ 121,191,404	\$ 121,700,473
Checking accounts	3,632,380	3,708,571
VeraCoop	1,219,137	1,390,252
NaviCoop	1,045,755	1,323,508
Certificates of deposits	28,783,750	28,549,159
Total	<u>\$ 155,872,426</u>	<u>\$ 156,671,963</u>

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

12. CERTIFICATES OF DEPOSITS

The interest rate on the certificates varies according to the amount and payment period during the years negotiated (1.7% weighted average).

<u>For the year ending December 31,</u>	<u>Amount</u>
2026	\$ 28,532,750
2027	158,000
2028	20,000
2029	7,000
2030	-
2031 and beyond	66,000
	<u><u>\$ 28,783,750</u></u>

As required by ASC-470-10-50, the following are the time deposits according to their maturity. As explained in Note 1, the maximum combined amount of shares and deposits insurable by a member or depositor, by Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico, will be \$250,000 for Credit Unions. As of December 31, 2025, and 2024, the Credit Union's members and clients held approximately \$12,877,280 and \$10,309,259, respectively, in deposits, certificates of deposit, and shares, based on the amount covered by COSSEC insurance.

13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses as of December 31, 2025, and 2024, consist of the following:

	<u>2025</u>	<u>2024</u>
Interest	\$ 81,424	\$ 88,100
Insurance premiums and contributions	520,271	506,063
Unclaimed funds	199,386	165,328
Accrued expenses	216,294	171,899
Audits and assemblies	73,370	76,260
Operating lease liability	96,598	130,909
Suppliers and other accounts	452,285	281,191
Total	<u><u>\$ 1,639,628</u></u>	<u><u>\$ 1,419,750</u></u>

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

14. OTHER INCOME

Other income as of December 31, 2025, and 2024 consist of the following:

	<u>2025</u>	<u>2024</u>
ATM and COOP 24 Networks management income	\$ 413,717	\$ 421,074
Credit cards management	171,312	158,016
Accounts management	21,870	24,199
Loans surcharges	161,696	147,152
Commissions on loans origination	171,682	90,203
Service charges	66,839	64,230
Insurance sales commissions	75,343	39,433
Dividends	695,037	637,892
Sponsorship	159,946	186,614
Rent	9,400	16,800
Gains on sale of Foreclosed properties and other assets	8,454	168,767
Other income	793,812	137,534
Total	\$ 2,749,108	\$ 2,091,914

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COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

15. OPERATING LEASE CONTRACTS

The Credit Union maintains a lease classified as operational for the branch located Peñuelas, Puerto Rico. The agreement between the parties stipulates that the lease would be for five years, expiring in May 2028, with a tiered monthly rent.

	<u>2025</u>	<u>2024</u>
Operating lease, net of amortization	\$ 96,598	\$ 130,909
Operating lease debt	<u>\$ 96,598</u>	<u>\$ 130,909</u>
	<u>2025</u>	<u>2024</u>
Amortization of right-of-use asset	\$ 34,311	\$ 31,977
Other variable and short-term leases	<u>127,794</u>	<u>113,233</u>
Total lease expenses	<u>\$ 162,105</u>	<u>\$ 145,210</u>

As of December 31, 2025, and 2024, the Right-of-Use Asset and related debt were as follows: The following table presents the future minimum lease payments due under the operating lease. The following are the non-cancellable lease terms expiring after December 31, 2025:

<u>For the year ending December 31,</u>	
2026	\$ 39,704
2027	40,895
2028	20,699
2029	<u>-</u>
	101,298
Difference between undiscounted cash flow and discounted cas flow (present value)	<u>(4,700)</u>
Total	<u>\$ 96,598</u>

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

16. GENERAL AND ADMINISTRATIVE EXPENSES

The breakdown of general and administrative expenses of the Credit Union for the period ending December 31, 2025, and 2024, consists of the following items:

	<u>2025</u>	<u>2024</u>
Salaries, bonuses and vacation	\$ 2,497,052	\$ 1,853,232
Employer contributions	227,595	182,903
Pension plan	115,241	84,868
Professional Services	668,962	773,361
Health Insurance	368,029	306,238
Insurance:		
Shares and loans	246,467	240,329
General	341,909	315,936
COSSEC	413,866	390,455
Depreciation	344,807	374,569
Goodwill amortization	40,000	40,000
Postage	99,150	78,556
Utilities	224,365	211,207
Rent	162,105	145,210
Cooperative industry education	33,898	25,877
Board of Directors	124,150	76,821
Activities for employees and members	106,570	116,528
Repairs and maintenance	751,128	701,568
Assemblies	56,929	57,845
Management of "ATH" and Mastercard networks	689,632	649,433
Office supplies	126,391	115,278
Bank charges	98,413	99,204
Car, travel, and representation	48,520	41,172
Donations	175,015	20,514
Advertising	420,256	406,032
Sales and use taxes (IVU)	105,251	105,356
Contribution to Liga de Cooperativas de PR	10,000	10,000
Others	160,182	112,995
Total	\$ 8,655,883	\$ 7,535,487

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NOTES TO THE FINANCIAL STATEMENTS

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17. GROUP LIFE INSURANCE FOR SHARES AND LOANS

Members who meet eligibility requirements enjoy share insurance. This insurance will pay up to a maximum of six thousand dollars (\$6,000) in share coverage and loan insurance with coverage up to the loan amount. The insurance is maintained with the Life Insurance Cooperative (COSVI). The loan insurance premium is paid by the members, and the share premium is paid by the Credit Union.

The insurance expense for the years ended December 31, 2025, and 2024, was \$246,467 and \$240,329, respectively.

18. PENSION PLAN

The Credit Union maintains a deferred contribution plan for all regular employees. The Credit Union bears the administrative costs of the plan. The Credit Union contributes four percent (4%), five percent (5%), or seven percent (7%) of each eligible employee's compensation, depending on age. In addition to employee contributions, participants may make voluntary contributions ranging from 1% to 10% of their compensation. It is the Credit Union's policy to deposit the accrued plan costs into a trust fund. The amount of such contributions may vary as established by the Puerto Rico Internal Revenue Code.

The plan expense for the years ended December 31, 2025, and 2024, was \$115,241 and \$84,868, respectively.

19. COMMITMENTS AND CONTINGENCIES

Legal Claims and suits

The Credit Union has several judicial and extrajudicial claims from third parties regarding various matters against the institution. The Credit Union is aggressively pursuing its legal positions in the appropriate forums and understands that they should not be successful. However, it maintains an estimate of contingencies that may impact its financial statements. It also maintains claims, primarily for monetary collection demands, as part of its normal operations as a financial institution.

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NOTES TO THE FINANCIAL STATEMENTS

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Compliance with State and Federal Laws

Credit unions are subject to compliance with state and federal Acts on regulatory matters, consumer protection Acts in the areas of consumer lending, mortgage lending, and other Acts applicable to financial institutions. These include anti-money laundering procedures, due diligence processes, and required disclosures to consumers, among others. The Credit Union's Management maintains a program to reasonably ensure compliance with applicable Acts and regulations. The Credit Union has not been involved in any noncompliance by federal or state agencies. Failure to comply with the provisions of the Act could result in fines or other legal or criminal actions. The financial statements do not include adjustments related to these uncertainties.

Federal Programs

During fiscal year 2024, the Credit Union entered into an agreement with the U.S. Department of the Treasury to receive federal funds from the Community Development Financial Institutions Funds program under the CDFI program. These funds can be used for financial products in eligible markets, financial services (regulated institutions only) in eligible markets, development services in eligible markets, expected credit loss reserves in eligible markets, capital reserves (regulated institutions only), among others.

The Credit Union received \$37,738 in fiscal year 2024, which was used to contribute to the Credit Union's capital in accordance with the fund delegation agreement. These funds received are subject to monitoring by federal agencies and reporting to the Federal Government.

Credit Union Exposure and Fiscal Condition of Puerto Rico

The credit quality of the Credit Union's loan portfolio is necessarily influenced, among other factors, by general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico, its consumers, and its businesses. The effects of the prolonged recession are reflected in limited loan demand, an increase in foreclosure rates, and higher levels of delinquencies on loans granted in Puerto Rico.

While PROMESA provides a framework to address the fiscal crisis of the Government of Puerto Rico, the duration and complexity of the Title III proceedings for the Government of Puerto Rico suggest a risk of further economic contraction.

This situation could adversely affect the economic activity of Puerto Rico, where the Credit Union conducts its operations. The accompanying financial statements do not include any adjustments related to the effects of the uncertainties associated with Puerto Rico's economic conditions and their impact on the Credit Union.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

Interest Rate Risk

The interest rate risk is the exposure of Credit Union's current or future savings and capital to adverse changes in market rates. This risk is a normal part of the risks managed by financial institutions and Credit Unions.

Proper management of this risk results in an important source of profitability and value for Credit Unions. However, excessive interest rate risk can pressure the savings, capital, liquidity, and solvency of financial institutions.

During the year ended December 31, 2024, the impact of the United States Federal Reserve's monetary policy, related to the speed of interest rate increases, has pressured the balance sheets of financial institutions in general, specifically on the items noted above.

As of December 31, 2024, the Credit Union continued to closely measure and monitor this risk in order to effectively anticipate and control any adverse effects that may arise from its exposure.

Concentration of Credit Risk

There is a geographic concentration in the loan portfolio since the Credit Union's operations are primarily conducted with members and clients in the northwest and neighboring towns. The concentration of credit by loan type is presented in Note 6 of the financial statements.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

To determine the fair value of financial instruments, the Credit Union's Management used the following methods and assumptions:

- The book value of cash, financial liabilities, and shares approximates their fair value due to their short-term nature. As practice in the industry, in a merger, consolidation, or sale of assets and liabilities with another credit union, these are recognized at their book value in such a transfer.
- The book value of cash equivalents and certificates approximates their market value due to their nature.
- The fair value of loans was estimated using the discounted value of impaired loans, based on their unreserved risk. The estimated value of loans, advances, and other receivables is net of the specific provision. The Credit Union classifies these assets as Level 3 within the fair value hierarchy. Management determined that the best available method for the fair value of loans is according to the methodology presented. The Credit Union's and the industry's experience is to hold loans in portfolio until maturity.

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For the years ended on December 31, 2025, and 2024

- The estimated value of investments is based on market prices when available (Level 1), market price quotations of similar investments (Level 2), the market price of the last transaction for that instrument in an active market (Level 2), or the proportional net assets associated to such investments (Level 2), as appropriate.
- The value of investments in cooperative entities represents the original cost of the investments made, plus capitalized dividends, less withdrawals or returns. Management understands that the fair value of such investments should approximate the book value due to their regulatory framework. In the purchase and sale of financial assets in a credit union, the value that the acquiring Credit Union has quoted for these shares equals their par value, in transactions supervised and executed by COSSEC.
- Repossessed automobiles and properties are recorded at the lower cost (book value of the loan) or their fair value, less any estimated costs to dispose of the property. Fair values are derived from property appraisals. If the property is recently acquired, it is recorded in books based on its market value, which is less than the cost to sell at the acquisition date. The Credit Union classifies these properties as Level 3 within the fair value hierarchy.

Financial Assets Recognized at Fair Value on a Recurring Basis

As of December 31, 2025, and 2024, the Credit Union had held to maturity securities for which fair value measurement is required on a recurring basis:

December 31, 2025

Type of asset	Level 1	Level 2	Level 3	Total
Investment in securities	\$ -	\$ 45,837,892	\$ -	\$ 45,837,892

December 31, 2024

Type of asset	Level 1	Level 2	Level 3	Total
Investment in securities	\$ -	\$ 51,534,852	\$ -	\$ 51,534,852

COOPERATIVA DE AHORRO Y CRÉDITO SAN RAFAEL (SAN RAFAEL COOPERATIVA)

NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

The Credit Union may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles (GAAP). These fair value adjustments generally result from the application of the lower of cost or market method or from impairment of individual assets. The valuation methodology used for these fair value adjustments is described above.

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

The Credit Union may be required, from time to time, to measure certain assets at fair value on a non-recurring basis in accordance with generally accepted accounting principles (GAAP). These fair value adjustments typically result from the application of the lower of cost or market accounting or impairment losses on individual assets. The valuation methodology used for these fair value adjustments is described above.

The valuation methodology used for these fair value adjustments is described above. The level of input used to determine each adjustment and the related asset's carrying amount as of December 31, 2025, and 2024, are summarized below:

December 31, 2025					
Type of asset	Book Value	Level 1	Level 2	Level 3	Total
Foreclosed assets	\$ -	\$ -	\$ -	\$ 205,250	\$ 205,250

December 31, 2024					
Type of asset	Book Value	Level 1	Level 2	Level 3	Total
Foreclosed assets	\$ -	\$ -	\$ -	\$ 149,823	\$ 149,823



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For the years ended on December 31, 2025, and 2024

Fair Value Determined

As of December 31, 2025, and 2024, the estimated fair value of financial instruments was determined as follows:

	2025		2024	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets				
Cash and cash equivalents	\$ 19,744,586	\$ 19,744,586	\$ 18,557,818	\$ 18,557,818
Certificates of deposit (due over three months)	9,800,044	9,800,044	9,700,044	9,700,044
Loans receivables, net	139,339,139	136,477,677	130,878,412	130,878,412
Investment in securities	52,546,554	45,837,892	60,447,722	51,534,852
Investment in cooperatives entities	11,466,792	11,466,792	10,777,837	10,777,837
Foreclosed properties	205,250	205,250	149,823	149,823
Other assets - interest receivable	1,147,956	1,147,956	1,172,872	1,172,872
	<u>\$ 234,250,321</u>	<u>\$ 224,680,197</u>	<u>\$ 231,684,528</u>	<u>\$ 222,771,658</u>
Financial Liabilities				
Deposits	\$ 127,088,676	\$ 127,088,676	\$ 128,122,804	\$ 128,122,804
Certificates of deposits	28,783,750	28,783,750	28,549,159	28,549,159
Shares	47,578,977	47,578,977	47,191,559	47,191,559
	<u>\$ 203,451,403</u>	<u>\$ 203,451,403</u>	<u>\$ 203,863,522</u>	<u>\$ 203,863,522</u>

21. RELATED PARTY TRANSACTIONS

Virtually, all the Credit Union's employees and members of the Board of Directors maintain savings accounts and loans payable to the Credit Union, and enjoy the services provided by the Institution. The terms of these transactions (interest charged and paid) are similar to those of accounts held by members in general.

Below is the movement of loans, and deposits and shares of employees and board members during the years ended December 31, 2025, and 2024:

	2025	2024
Loans, beginning balance	\$ 1,378,945	\$ 1,754,378
New loans, net of repayments	77,485	(375,433)
Loans, ending balance	<u>\$ 1,456,430</u>	<u>\$ 1,378,945</u>
Deposits and shares	<u>\$ 2,575,801</u>	<u>\$ 1,898,877</u>

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22. SUBSEQUENT EVENTS

The Credit Union adopted ASC 855, related to Subsequent Events. ASC 855 establishes the general standards for accounting and disclosure of events that occurred after the balance sheet date but before the financial statements' issuance date.

Specifically, it establishes the period after the balance sheet date during which the Credit Union's Management must evaluate events or transactions that may have occurred and would need to be recorded or disclosed in the financial statements, the circumstances under which the Credit Union should recognize and disclose such events, and the type of disclosure that should be provided for those events that may have occurred after the balance sheet date. As of December 31, 2025, there are no subsequent events that require disclosure in the financial statement.

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NOTES TO THE FINANCIAL STATEMENTS

For the years ended on December 31, 2025, and 2024

23. RATIO OF UNDISTRIBUTED CAPITAL

As indicated in Note 1, the Credit Union must maintain a minimum of undistributed capital of eight percent (8%) of the total assets subject to risk. The calculation of the undistributed capital ratio over risk-weighted assets is determined as follows:

	2025	2024
Elements of Undistributed Capital:		
a. Undistributed capital reserve	\$ 10,777,706	\$ 10,350,099
b. Accumulated net losses	-	-
c. Reserve required by COSSEC	-	1,397,475
d. Institutional Resilience Regulatory Reserve	-	-
e. Other reserves	20,826,797	18,630,028
f. 15% of the Credit Union's undistributed earnings	114,000	114,000
g. Portion of the allowance for loan losses for nondelinquent loans	832,245	783,951
h. Debt securities issued by the Credit Union	-	-
i. Other financial instruments authorized by COSSEC	-	-
j. Other elements COSSEC has established by regulation	-	-
Total undistributed capital	\$ 32,550,748	\$ 31,275,553
Elements of assets subject to risk:		
Total assets, excluding allowance for loan losses of \$4,577,705 and \$3,933,937 for the years 2025 and 2024, respectively	\$ 237,086,293	\$ 231,520,700
Less:		
I. Assets with risk consideration of 0.00%:		
A. 100% Cash in hand and in transit possessed by the Credit Union	2,204,484	2,253,245
B. 100% Bonds and debt securities, including portions of all these, they are issued, insured or unconditionally guaranteed by the Commonwealth of Puerto Rico or its agencies, or the U.S. Government or its agencies	8,756,029	7,098,188
C. 100% Loans, including all portions thereof which are issued, insured or unconditionally guaranteed by the Commonwealth of Puerto Rico or its agencies, or the U.S. Government or its agencies	-	-
D. 100% of the loans fully secured by first mortgages on residential properties of one to four families	-	-
E. 100% Student loans insured under the "Higher Education Act"(1965)	-	-
F. 100% Members' loans secured by shares, deposits or both that may NOT be withdraw from the Credit Union	24,420,138	24,168,483
G. 100% of the Credit Union investment in the Corporation	2,579,666	2,513,620
H. 100% Other Assets at Risk established by the Corporation	-	-

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	<u>2025</u>	<u>2024</u>
II. Assets subject to risk with 20%		
A. 80% Items in collection process	\$ 14,034,897	\$ 13,086,087
B. 80% Interest in collection process	317,155	366,389
C. 80% Portion of loans to non-members guaranteed by liquid assets that is hold as collateral	-	1,021,445
D. 80% Obligations and debt securities	36,683,423	35,549,332
E. 80% Loans, obligations and debt securities	-	-
F. 80% of deposits, loans, bonds and debt securities, including portions thereof, that are issued, insured or guaranteed by depository institutions in the United States and Puerto Rico	7,840,036	7,760,036
G. 80% book value of real property or appraised value, whichever is less	277,917	291,738
H. 80% of the prepaid insurance risk corresponding to the institution	337,396	322,972
I. 80% of common or preferred stock investments supported by Banco Cooperativo, Cooperativa de Seguros Múltiples and COSVI	6,786,110	6,283,289
J. 80% of other risk assets established by the Corporation	-	-
III. Assets with risk consideration of fifty percent (50%):		
a. 50% Fully Secured First Mortgage Loan on 1-4 Family Residential Properties	19,380,834	17,681,708
b. 50% of that investment represents the participation in loans described in the previous subsection	-	-
c. 50% of commercial loans completely guaranteed by first mortgages	1,237,197	752,404
d. 50% of investment in shares of the central cooperative organizations provided they have no current or accumulated losses	1,853	1,853
e. 50% of auto loan that not represent a rate in excess of 90 days	10,736,153	10,015,098
f. 50% of other risk assets established by the Corporation	-	-
TOTAL ASSETS NOT SUBJECT TO RISKS	<u>135,593,288</u>	<u>129,165,887</u>
TOTAL ASSETS SUBJECT TO RISKS	<u>\$ 101,493,005</u>	<u>\$ 102,354,813</u>
RATIO OF UNDISTRIBUTED CAPITAL TO ASSETS SUBJECT TO RISKS	<u>32.07%</u>	<u>30.56%</u>