



GENERAL REGULATIONS

Cooperativa de Ahorro y Crédito Rafael Carrión, Jr.

APPROVED September 30, 2023

PO BOX 19415
Fernández Juncos Station
San Juan, PR 00910

(787) 977-2202
servicio@cooprafaelcarrionjr.com
cooprafaelcarrionjr.com

CONTENT

Chapter I – Name and General Objectives	5
Article 1.01 – Name	5
Article 1.02 – General Objectives.....	5
Article 1.03 – Definitions.....	6
Chapter II – Rights and Authorized Activities	9
Article 2.01 – Goals and Purposes	9
Article 2.02 – Loans and Financial Services to Members.....	9
Article 2.03 – Loans and Financial Services to Non-Members.....	11
Article 2.04 – Authorization to Perform Other Financial Activities.....	11
Article 2.05 – Authorization to Establish Branches and Service Offices.....	14
Article 2.06 – Investment in Affiliated Subsidiaries and Cooperative Enterprises	15
Article 2.07 – Authorization to Issue Preferred Shares and Capital Obligations	
Article 2.08 – Rules Regarding Real Estate.....	20
Chapter III – Organization of the Savings and Credit Cooperative	22
Article 3.01 – Organization of the Cooperative	22
Article 3.02 – Organization by Districts	23
Article 3.03 – Amendments to the Incorporation Clauses and General Regulations.....	23
CHAPTER IV – Members	24
Article 4.01 – Members' Requirements	24
Article 4.02 – Members' Rights.....	25
Article 4.03 – Members' Obligations	26
Article 4.04 – Registry of Members.....	27
Article 4.05 – Voluntary Resignation of Members	27
Article 4.06 – Causes and Procedures for the Removal of Members.....	27
Article 4.07 – Transfer of Shares.....	29
Chapter V – Assemblies, Board of Directors and Committees.....	31
Article 5.01 – Assembly and Fiscal Year	31
Article 5.02 – Convocations	32
Article 5.03 – Quorum.....	33
Article 5.04 – Right to Vote.....	33
Article 5.05 – Requirements of the Members of Governing Bodies	34
Article 5.06 – Election and Formation of the Board of Directors.....	35
Article 5.07 – Terms of a Position.....	36
Article 5.08 – Vacancies.....	37
Article 5.09 – Duties of the Board Members and Election of Officers.....	37
Article 5.10 – Rights and Duties of the Board.....	37
Article 5.11 – Designation, functions and responsibilities of the Executive President.....	42
Article 5.12 – Election and Composition of the Supervision Committee.....	43
Article 5.13 – Functions and Responsibilities of the Supervision and Auditing Committee	43
Article 5.14 – Designation and Composition of the Credit Committee	44

Article 5.15 – Functions of the Credit Committee	45
Article 5.16 – Designation and Composition of the Education Committee	45
Article 5.17 – Education Policy	46
Article 5.18 – Function of the Education Committee	46
Article 5.22 – Compensation and Reimbursement of Expenses	48
Article 5.23 – List of Directors and Committee Members	49
Article 5.24 – Causes for the Separation of Members from Governing Bodies	49
Article 5.25 – Procedures for the Separation	50
Article 5.26 – Limitation of Employment	52
Article 5.27 – Right of the Corporation to Dismiss Someone	52
Chapter VI. – Operational Capital, Loans and Limitations	53
Article 6.01 – Capital	53
Article 6.02 – Indivisible Capital	53
Article 6.03 – Granting of Loans	58
Article 6.03 – A Reception of Payments	60
Article 6.04 – Participation in Surpluses	61
Article 6.05 – Withdrawal of Deposits and Shares	61
Article 6.06 – Shares Withdrawal or Transfer by Members of the Board and the Committees	62
Article 6.07 – Provision for Possible Loan Losses (Requirement for Liquidity, Reserve for Contingencies and Voluntary Reserves)	62
Article 6.08 – Tax Exemption	63
Article 6.09 – Unclaimed Accounts	64
Article 6.10 – Contribution to Education	66
Chapter VII – Institutional Changes	67
Article 7.01 – Limitation to Merge or Consolidate	67
Article 7.02 – Voluntary Merger or Consolidation	67
Article 7.03 – Voluntary Dissolution of Cooperatives	67
Chapter VIII – Administrative Stipulations, Auditing	68
Article 8.01 – Fiscal Year of the Cooperatives	68
Article 8.02 – Notifications and Convocations	68
Article 8.03 – Reports	68
Article 8.04 – Adjudicating Procedures	68
Article 8.05 – Inspections, Auditors and Exams	69
Article 8.06 – Public Policy for Strengthening and Rehabilitating Cooperatives	69
Article 8.07 – Mandatory Merger or Consolidation	70
Article 8.08 – Management under Receivership	70
Article 8.09 – Suspension or Revocation of Permits and Cancellation of Certificate	72
Article 8.10 – Cause for the Dissolution of Cooperatives	74
Article 8.11 – Procedure for the Orderly Dissolution by the Corporation	74
Chapter IX – Prohibitions and Penalties	76
Access to the Books	76
Filing of Documents	77
Confidential Character of the Transactions	77

Article 9.01 – Exclusive Use of the Cooperativa de Ahorro y Crédito Name.....	77
Article 9.02 – Restriction in Granting Loans to For-Profit Entities	78
Article 9.04 – Responsibility for Violations of the Law	79
Article 9.05 – Felonies	79
Article 9.06 – Crimes Against Cooperative Funds	80
Article 9.07 – Damaging Informations.....	81
Chapter X – Fiduciary Duties and Conflicts of Interest.....	82
Article 10.01 – Duties.....	82
Chapter XI – Accounting Requirements in Special Investments.....	83
Article 11.01 – Special Investments	83
Article 11.02 – Accounting Treatment of Special Investments	84
Article 11.03 – Creation of Temporary Special Reserve	86
Article 11.04 – Special Investments Committee	88
Chapter XII – Final Stipulations	89
Article – 12.01 Amendments.....	89
Article – 12.02 Suspension of the Regulations.....	89
REVISIONS.....	89

General Regulations

Cooperativa de Ahorro y Crédito Rafael Carrión, Jr.

This Cooperative is an autonomous association of people who have joined voluntarily to confront their common economic, social and cultural needs and aspirations through a financial enterprise jointly owned and democratically controlled. It is based on mutual assistance, responsibility, democracy, equality and solidarity. In conformity with the tradition of its founders, its members believe in the ethical values of honesty, transparency, social responsibility and concern for others. It is governed by seven essential principles, intentionally recognized, as adopted by the International Cooperative Alliance. The most recent version of those principles was adopted on September 23, 1995, in the city of Manchester, and they are the following:

1. **Open and voluntary membership** – The cooperatives are voluntary organizations opened for all those people willing to use their services and willing to accept the responsibilities entailed in the membership without any discrimination of gender, race, social class, political or religious position.
2. **Democratic control by the members** – Cooperatives are democratic organizations controlled by their members, who actively participate in defining the policies and in decisions-making. Men and women elected to represent their cooperative are accountable to the members. In base cooperatives, members have the same voting right (one member, one vote), while in cooperatives of other levels are also organized with democratic procedures.
3. **Financial participation of members** – Members contribute equitably and control in a democratic way the cooperative capital. At least a part of that capital is common property of the cooperative. Usually, members receive a limited compensation, if there is any, on the subscribed capital as a membership condition. Members assign part of that surplus for any of the following purposes: development of the cooperative through the possible creation of reserves, at least a part of which must be indivisible; the benefits for members in proportion with their transactions with the cooperative; and the support to other activities, as approved by the membership.
4. **Autonomy and independence of the cooperative movement** – Cooperatives are autonomous organizations of mutual assistance, controlled by their members. If they enter into agreements with other organizations, including governments or have capital from external sources, they enter into them in such terms as to ensure the democratic control by the members and maintain the cooperative's autonomy.

5. **Educate, train and inform** – Cooperatives provide education and training to its members, its elected leaders, managers and employees, in such a way that they may contribute effectively to the development of their cooperatives. Cooperatives inform the general public, particularly youth and opinion developers, about the nature and the benefits of the cooperative movement.
6. **Cooperation among cooperatives** – Cooperatives serve their members more effectively and strengthen the cooperative movement working jointly through local, regional, national and international structures.
7. **Commitment with the community** – The cooperative works for the sustainable development of its community through policies accepted by its members.

Furthermore, it is presently public policy of the Commonwealth of Puerto Rico to guide the social and economic development of Puerto Rico following the principles of social justice, auto effort and democratic control of the cooperative movement. Act No. 255 of October 28, 2002, amended until 2023, provides savings and credit cooperative sector a forward-looking legislation that addresses the claims for operational flexibility and competitive equality of this important sector. All this within a framework of administrative and financial prudence that makes viable an orderly development and growth of these important financial institutions in our communities and towns.

This Cooperative, to comply with the challenges imposed by the public policy of support to the cooperatives and said new legislation, has adopted the following general regulations in which the former stipulations are adjusted to Act No. 255 of October 28, 2002, as amended until 2023.

Chapter I – Name and General Objectives

Article 1.01 – Name

The name of this savings and credit cooperative will be: **COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN, JR.**, hereinafter "Cooperative".

Article 1.02 – General Objectives

This Cooperative Is organized with the following general objectives in conformity with the stipulations of its charter close and the applicable law:

- a) Allow the open offering of products and services by the Cooperative under terms and conditions similar to the other financial market participants.

- b) Make viable the channeling of financial resources toward the financing of productive activity, through cooperative enterprises and self-management projects.
- c) Facilitate the creation of corporate structures and cooperatives to make it viable the incursion of savings and credit cooperatives in activities allowed to the other financial market participants.
- d) Bring about a just, efficient and effective supervision and auditing that advance and promote sound financial administration processes based on administrative discipline and financial prudence.
- e) Promote the professional development and continuous training of governing bodies, executives and employees.
- f) Promote the harmonious cooperation among governing bodies and managers to mutually respect the area of action and responsibility of each component.
- g) Make viable the economic integration of the savings and credit sector with other productive sectors.
- h) Advance, promote and facilitate the integration of the cooperative savings and credit sector, particularly through operational integration structures.

Article 1.03 – Definitions

In conformity with Act 255, and for a better understanding, the following terms convey the meaning herein expressed.

- a) **Shares** – The economic contribution each cooperative member makes to the capital or assets of the cooperative enterprise.
- b) **Preferred Shares** – Those shares issued by a cooperative in accordance with the provision in Article 2.07(a) of this law.
- c) **Agency** – Any department, office, administration, bureau, board, committee, instrumentality, public corporation, dependency or political subdivision of the Commonwealth of Puerto Rico, including the municipalities, or of the U.S. government.
- d) **Banco Cooperativo** – The Banco Cooperativo de Puerto Rico, established by Act No. 88 of June 21, 1966, as amended.
- e) **Indivisible Capital** – The regulatory capital as required under Article 6.02 of Act 255 of October 28, 2002, amended up to 2023.

- f) **Social Capital** – The sum of all shares acquired by the cooperative members, the indivisible capital reserve, any other reserve required by law or regulation, the other voluntary reserves duly adopted by the cooperative and the net savings retained and not distributed.
- g) **Committee** – Any committee designated or elected in a cooperative.
- h) **Cooperative** – Any savings and credit cooperative society of first or second degree established and organized in conformity with this act. Those cooperatives whose members are cooperative entities are considered second degree cooperatives.
- i) **Closed Cooperatives** – Any first-degree savings and credit cooperative society whose members are limited to an enterprise or particular group with the exclusion of other groups.
- j) **Insured Cooperative** – Any cooperative subscribed to the share and deposit insurance that the COSSEC corporation will provide.
- k) **Adequate Condition Cooperative** – That savings and credit cooperative that counts on an adequate financial and management condition, to be determined with objective and uniform parameters that the corporation will define through regulation.
- l) **Corporation** – The Public Corporation for the Supervision and Insurance of Savings and Credit Cooperatives, established by Act No. 114 of August 17, 2001, hereinafter the Corporation.
- m) **Governing Bodies** – The Board of Directors, the Credit Committee, the Supervision Committee, the Education Committee, any committee that performs functions delegated by the Board of Directors and any permanent elected body duly established by law, regulation or by the general regulations of the cooperative.
- n) **Depositor** – Any person who, even if not a member of a cooperative, maintains deposits in it.
- o) **Deposits** – All the assets, except shares, owned by a member or depositor in a savings and credit cooperative and that are evidenced by savings accounts, certificates of deposit, checking accounts, Christmas funds, individual retirement accounts, trust accounts or any other account or financial instrument of equal or similar nature, as determined through decision or by regulations issued by the Corporation.

- p) **Executive Officer** – Every person who, as a result of any designation or fixed, indefinite or temporary work contract and through the payment of a salary, compensation or remuneration, occupies a position of trust, including that of the Executive President, Manager, Auditor or Controller in a cooperative.
- q) **Financial Institutions** – Those financial institutions as defined in Article 4(g) of Act No. 4 of October 11, 1985, as amended.
- r) **CAEL Indicators** – The financial analysis system adopted by the Corporation under Regulation No. 5231 of May 8, 1995, as that analysis system may be amended from time to time, not including the indicator related to management identified with the letter M (management).
- s) **Board** – The Boards of Directors of every cooperative duly established in conformity with the stipulations of this Law.
- t) **Headquarters** – The central office or headquarters where the office of the Board of Directors, Executive President and the other executive officers determined by the Board of Directors is located.
- u) **Service Offices** – Those fixed or movable sites where the cooperatives provide service that are not branches, including ATM units or similar electronic devices.
- v) **Person** – Any natural or legal entity duly organized or authorized to carry on business under the laws of Puerto Rico.
- w) **Executive President** – The principal executive officer of the cooperative, designed by the Board of Directors in conformity with the stipulations of Articles 5.10 and 5.11 of Law 255 of October 28, 2002, as amended.
- x) **Member** – Any person admitted as member of a cooperative in conformity with Law 255 and the general regulations of that cooperative; stipulating that for-profit legal entities will not be admitted as members.
- y) **Branches** – Fixed or movable sites in which the cooperative simultaneously provides direct services to open accounts and disburse loans to members and clients.
- z) **Family Unit** – The spouse of the member of a governing body or of a cooperative employee; and the family members up to a fourth degree of blood relationship or second degree of affinity, and those people who share with them their legal residence or whose financial matters are under his or her legal control.

Chapter II – Rights and Authorized Activities

Article 2.01 – Goals and Purposes

The primary goal of this Cooperative is to provide, through the cooperative movement, full access to financial services, serve as price regulator, educate members about the best way to manage their personal finances, promote productive activity through self-employment, self-management and the support to small enterprises and develop leaders to strengthen the cooperative movement and the communities. To attain these purposes, this Cooperative will:

- a) promote the development and strengthening of the cooperative movement and spread its philosophy through educational programs;
- b) promote in people the savings habit and the prudent use of credit, providing for this purpose education regarding personal and family budget, management of personal finances, prevention of bankruptcy and others;
- c) promote educational programs aimed at the development and technical training of volunteer leaders, professional leaders and Cooperative employees;
- d) offer financial services to people, whether members or non-members of the Cooperative, under the most favorable terms and conditions given the market circumstances;
- e) expand its service capacity so as to become the center of financial services for the family of its members, and;
- f) promote the establishment and operation of other cooperative enterprises, particularly those that promote employment and agricultural, industrial, farming production, as well as those regarding consumption, housing and transportation.

Article 2.02 – Loans and Financial Services to Members

The Cooperative may grant loans and provide its members the following financial services:

- 1) Accept, receive and manage all types of deposit from people and private and public entities, through electronic means and offer all the depository services allowed to depository financial institutions, as applicable to the services this Cooperative offers, which could include:
 - a) Services of accounts for savings, checking, certificates of deposit, and other instruments, all of them with or without interest;

- b) Installations or services for the electronic transfer of funds and other electronic banking services, including debit cards and any other electronic payment method; and
 - c) Receiving and managing deposits and individual retirement accounts (IRA) and other trust funds, in special accounts or for the payment for services.
- 2) Subject to the rules of Article 6.03 of Act No. 255, grant all types of financing, as applicable to the services this Cooperative offers, which could include:
- a) Personal loans or lines of credit with or without collateral;
 - b) Loans for the purchase of new or used motor vehicles;
 - c) Loans for the purchase of personal property with or without liens
 - d) All types of mortgage loans;
 - e) Student loans that may be guaranteed by any agency of the Commonwealth of Puerto Rico or the government of the United States of America;
 - f) Loans in the form of credit card services for the purchase of property, the payment for services and for granting cash credit limits;
 - g) Loans for financing insurance premiums or policies;
 - h) Collateralized commercial loans, subject to the adoption and validity of policies and procedures of the credit evaluation specifically adopted for commercial financing, implemented through commercial credit officers duly trained for said function; and
 - i) Financing of leasing contracts of personal property, subject to the stipulations of applicable laws.
- 3) As the Corporation may authorize through regulations or administrative decision, the cooperative, if it is of an adequate condition, may provide all those other services not covered in subsections (a) and (b) of this Article and that may be allowable to other financial institutions and their subsidiaries. When evaluating any authorization request, as well as when adopting regulations under this subsection, the Corporation will ensure the fair and competitive participation of the cooperative in the market of the respective services in question, and through regulation, it could require the designation or contracting specialized resources and duly trained in providing such services. The Corporation may require that the authorized services be performed in a segregated way through subsidiaries if that is required from other depository institutions through applicable laws or regulations.

Article 2.03 – Loans and Financial Services to non-members

- a) The Cooperative may offer to non-members the following products and services, which may include:
1. Personal loans up to the maximum amount and under the terms and conditions allowed in conformity with Act 106 of June 28, 1965, as amended, known as the Act of Small Personal Loans Companies.
 2. All the financial services available to members as stipulated in Article 2.02 of Act No. 255, subject to the loans offered do not exceed the amount of liquid assets the debtor maintains in the cooperative or that guarantee one hundred percent (100%) of the loan. The following assets will be considered as liquid assets, provided they may be subject to lien duly established in favor of the Cooperative:
 - a) Members' assets not committed to loans granted by the Cooperative;
 - b) Deposit accounts or of transferable securities maintained in financial institutions authorized to operate in Puerto Rico; and
 - c) Policies or unearned premiums of policies granted by insurance companies authorized to operate in Puerto Rico, whose premiums respond for the outstanding balance of the loan.
 3. The Cooperative may adopt structures of interests, fees and prices different for members and non-members.

Article 2.04 – Authorization to Perform Other Financial Activities

In addition of the financial services and activities authorized by Articles 2.02 and 2.03 of Law No. 255 of 2002 Puerto Rico Cooperative Societies, the Cooperative may perform other financial activities as described below, subject to the limits and conditions that the Corporation imposes through regulations or administrative decision, which will ensure the fair and competitive participation of the Cooperative in the market of the respective financial services involved, such as:

- a) Make deposits in other cooperatives, in the Banco Cooperativo de Puerto Rico, created by Act No. 88 of June 21, 1966, as amended, and commercial and savings banks operating in Puerto Rico in conformity with applicable laws;
- b) Acquire shares and other securities and deposits from cooperative societies and from cooperative organisms of second and third degree organized in accordance with the laws of Puerto Rico, including insurance cooperatives, the Banco Cooperativo and subsidiary or affiliated entities of the previously mentioned entities.

- c) Subject to the applicable requirements of Article 9.02 of Act No. 255, grant loans to other cooperative societies organized in conformity with the laws of Puerto Rico, to any legal entity, association, society, foundation, institution, company or group of people, special workers corporations organized in conformity with the laws of Puerto Rico, whether they are or not Cooperative members;
- d) Make short- or long-term loans from any person, entity or public or private agency, subject to the loan not exceeding twenty-five percent (25%) of the Cooperative's social capital, after subtracting any accumulated loss. These requirements do not apply to the deposit of public funds, which are governed by the special regulation that applies. However, regardless of what has been stated previously, with previous justification for it, the Corporation may authorize that the amount of the loan exceed the limit previously established. In cases in which it is necessary to pledge cooperative assets to make such loans and the market price of the goods to be offered as guarantee exceed one hundred twenty percent (120%) of the total amount of the loan, the Cooperative must obtain the previous consent in writing from the Corporation. When the goods are pledged without that consent and the cooperative incurs solvency problems that require some action under Act No. 114 of August 17, 2001, the Corporation will have the prerogative, at its sole discretion, to rescind the transaction;
- e) Expand, accept, endorse, discount, legalize and issue promissory notes, bills of exchange, writs of attachment, certificate of deposit and other commercial documents transferable or negotiable.
- f) Sell and purchase money orders, traveler's cheques, receive securities for deposit, manage loans and execute all types of collections and payments on account of other; buy and sell postal stamps, internal revenue stamps, telephone prepaid cards and other similar services and goods;
- g) Purchase and sell bonds, securities and other proofs of debt that are not overdraft from the governments of Puerto Rico, the United States and the states of the U.S., as well as from their agencies, corporations, instrumentalities, authorities and political subdivisions. Investing in such instruments, under the same conditions regarding yield, priority will be given to those of the government of the Commonwealth of Puerto Rico and its agencies. Similarly, when dealing with bonds, securities or proof of debt from states of the United States or their agencies, the value to be acquired must be classified among the two higher categories by an internationally recognized financial instrument evaluating firm;
- h) Establish or join one or more institutions, associations, corporations or network of financial entities or institutions related to the with the delivery of financial services and whichever other common cooperative needs, including networks or associations for the transfer of funds by electronic means. Payment systems and clearing houses, among others whose operations could be limited to the Commonwealth of Puerto Rico or be extensive or originating in any foreign place;

- i) Operate a trust department, with the Corporation's authorization;
- j) Purchase and possess common shares and obligations issued by Federal National Mortgage Association, Federal Home Loans Mortgage Corporation, Government National Mortgage Association, Student Loans Marketing Association or by the Federal Land Bank, Federal Intermediate Credit Bank and the Bank for Cooperatives, organized and authorized to do business in the Commonwealth of Puerto Rico in conformity with the laws of the U.S. Congress;
- k) Trade, levy, take or lease the real estate necessary to carry out the goals and purposes for which the Cooperative was formed, subject to the limitation of applicable laws and regulations;
- l) Operate, subject to the applicable regulations, as depository of public funds of any nature for which the agencies will accept as collateral the loans granted to members and that are not more than sixty (60) days in arrears and whose outstanding balance remains in at least one hundred twenty-five percent (125%) of the deposit;
- m) Devote itself to the selling, solicitation, offering or marketing of insurance products in Puerto Rico under any of the following structures:
 - 1. Operating directly by itself as cooperative insurer authorized by Act No. 77 of June 19, 1957, as amended, known as the Insurance Code, of which it possesses certificates of funds contributions. For those purposes, the Cooperative is exempt from the demands and restrictions as stated in Article 9.080 and subsections (1), (4) and (5) of Article 9.160 of Act No. 77 of June 19, 1957, as amended, known as the Insurance Code of Puerto Rico.
 - 2. Through a subsidiary, affiliate or cooperative enterprise, as described in Article 2.06 of Act 255, for the sale, solicitation, offer or marketing of insurance products from cooperative insurers authorized in conformity with Act No. 77 of June 19, 1957, as amended, known as the Insurance Code of Puerto Rico, which possesses certificates of funds contributions, for which it is not necessary to qualify as a financial stock-holding company.

The insurance activities of the Cooperative will be subject to the special regulations that will be adopted jointly by the Insurance Commissioner and the Corporation, which regulations will ensure a fair and competitive participation of the cooperatives in their role of insurance selling by depository entities and will comply with the purpose of cooperative entities supporting one another;

- n) Perform the activities or financial services necessary or convenient to strengthen their competitive as financial intermediary operating in an atmosphere of regulatory liberality;

- o) Serve as sole incorporator of subsidiary or affiliated entities under any statutory stipulations that allow the organization of legal entities in conformity with the laws of Puerto Rico;
- p) Execute all necessary acts and operations to perform the activities for which the Cooperative is organized and incorporated, subject to the limitations established by Act No. 255 and in the regulations adopted as a result, as well as Act No. 114 of August 17, 2001 and its regulations; and
- q) Perform any other activity the Corporation determines administratively or through regulation that are incidental to the Cooperative operations or that result as appropriate for other financial institutions or cooperative entities.

Article 2.05 – Authorization to Establish Branches and Service Offices

- a) **Branches** – The Cooperative could establish branches in mobile units or in permanent establishments, provided it complies with stipulations and procedures of Act No. 255 and its regulations and, in any way, with the previous approval of the Corporation. The Cooperative, if it wants to receive authorization to establish a branch, whether mobile or permanent, must file an application with the Corporation, in which it informs the exact address of the place where it plans to establish the branch or where it plans to operate mobile branches.
- b) **Service Offices** – The Cooperative of adequate condition may establish service offices subject to notifying the Corporation where they are located. The opening of a service office will be considered approved if the Corporation does not present any objection within thirty (30) calendar days following the day the notification to the Corporation was received. The Corporation's objection will expressly indicate the specific basis for it, in which case the process to establish the service office will be put on hold until the objection is resolved. The Cooperative that does not have the adequate condition may establish service offices subject to the previous approval from the Corporation.
- c) **Relocation of Branches and Service Offices** – If the Cooperative is of the adequate condition, it may relocate its branches and service offices subject to notifying the Corporation about those relocations. The relocation will be considered approved if the Corporation does not present any objection within the thirty (30) calendar days following the date the notification was received. The Corporation's objection will expressly indicate the specific basis for it, in which case the process to establish the service office will be put on hold until the objection is resolved. The Cooperative that does not have the adequate condition may establish service offices subject to the previous approval from the Corporation.

- d) Each notification and each request for prior approval required under this Article must be submitted in writing and signed by an officer authorized to perform this effort and shall include the information the Corporation requires by regulation. The objectives for the evaluation of the requests will be adopted by the Corporation through regulation.

Article 2.06 – Investment in Affiliated Subsidiaries and Cooperative Enterprises

- a) Subsidiaries one hundred percent (100%) owned – The Cooperative may carry out any of the activities allowed directly or through subsidiaries one hundred percent (100%) owned and controlled by the Cooperative. These subsidiaries may be organized under any of the statutory stipulations that allow the organization of legal entities under the laws of Puerto Rico, including Act No. 255, Act No. 50 of August 4, 1994, as amended, known as the General Act of Cooperative Societies of Puerto Rico, Act No. 144 of August 10, 1995, as amended, known as the 1995 General Act of Corporations, Act 106 of June 28, 1965, as amended, and the stipulations of the Civil Code of Puerto Rico of 1930, as amended, regarding societies and trusts and under the stipulations of successor laws of the previously mentioned statutes. Apart from what Act No. 50 of August 4, 1994, as amended, states, for the purpose of the creation of subsidiary entities, it will be sufficient the presence of the cooperative or its authorized representative without requiring multiple incorporators.

If the Cooperative is of adequate condition, it may establish the subsidiaries, subject to notifying the Corporation their establishment. The establishment of a one hundred percent (100%) owned, would be deemed approved if the Corporation does not present any objection within thirty (30) calendar days following the date the cooperative notification was received. The objection by the Corporation will expressly indicate the specific basis for it, in which case the process to establish the subsidiary will be put on hold until the objection is resolved. The Cooperative that does not have the adequate condition, it may establish subsidiaries subject to the previous approval from the Corporation. Every notification required under this Article must be submitted in writing and signed by an officer authorized to perform these efforts and shall contain the information set forth by the Corporation through regulation.

The operations of the subsidiary will be subject to external auditing by a Certified Public Accountant. Regarding the subsidiary, the Corporation will have all the rights granted by Act No. 255, Act 114 of August 17, 2001, and any special law that may apply.

- b) Investment in second degree financial enterprises. The Cooperative and two (2) or more cooperatives may establish, organize and invest in institutions or entities dedicated to offering financial or administrative services to cooperative entities or to other people. Those entities may be organized under any of the statutory stipulations that allow the organization of statutory entities in conformity with the laws of Puerto Rico, including this law, Act No. 50 of August 4, 1994, as amended, known as the 1995 General Cooperative Societies of Puerto Rico Act, Act No. 144 of August 10, 1995, as amended, known as the 1995 General Corporations Act, Act No. 106 of June 28, 1965, as amended, and the stipulations of the Puerto Rico Civil Code of 1930, as amended, regarding the societies and trusts, and in conformity with the stipulations of successor laws of the previously mentioned statutes. Apart from what Act No. 50 of August 4, 1994, as amended, states, for the purpose of the creation of subsidiary entities, it will be sufficient the presence of the cooperative or its authorized representative without requiring multiple incorporators.

The establishment and investment in financial enterprises of the second degree will be made subject to the rules adopted by the Corporation, which will consider, among others:

1. Authorization and recognition of allowable administrative activities, which will include the activities allowed to other financial institutions and their subsidiaries;
2. Maximum investment in financial enterprises;
3. Participation of directors and executive officers of the saving and credit cooperatives in governing bodies and management of the financial enterprise;
4. Internal controls and ethical rules to prevent conflicts of interest; and
5. Controls and restrictions, if any, to the transactions among affiliated enterprises.

The operations of the financial enterprises will be subject to external auditing by a Certified Public Accountant. Regarding these enterprises, the Corporation will have all the authority granted by Act No. 255, Act 114 of August 17, 2001, and any special law that may apply.

- c) Investment in non-financial Cooperative enterprises – The Cooperative could sponsor, promote, facilitate the financing, invest and participate as members preferred stockholders in cooperative enterprises that provide multiple services and in cooperative enterprises dedicated to activities in the commercial, industrial, agriculture fields or that contribute, in whichever way, to the creation of jobs, to promote the production or the development or integration of the cooperative movement. The Corporation will adopt through regulation the specific rules that will govern the investment of cooperatives in cooperative enterprises, including:

1. Total maximum investment in cooperative enterprises;
2. Maximum investment, for each cooperative enterprise;
3. Maximum proportion of the cooperative enterprise shares;
4. Items of the economy for the development of cooperative enterprises;
5. Participation of directors and executive officers of the Cooperative in the governing bodies and management of the cooperative enterprise;
6. Internal controls and ethical rules to prevent conflicts of interest;
7. Controls and restrictions to the transactions among affiliated enterprises; and;
8. Authorization process for the organization or investment in non-financial cooperative enterprises.

The goal of the Corporation's regulations is to make viable the investment in the savings and credit sector in the development of diverse types of cooperative enterprises, within the frameworks of financial prudence and sound administration.

The non-financial departments converted into subsidiaries under Act No. 172 of August 12, 2000, will be treated as non-financial cooperative enterprises under Act No. 255. On these subsidiaries no reduction of their assets or on operations will be required considering the limitations that will be adopted through new regulations, regarding the amount of total investment allowable in non-financial cooperative enterprises, which could limit subsequent investment increases of the parent cooperative if the original investment exceeded the parameters that will be adopted by regulation.

- d) Tax exemptions – One hundred percent (100%) owned subsidiaries, second degree financial enterprises or non-financial cooperative enterprises will have the same tax exemptions granted by Article 6.08 of Act No. 255.
- e) If the Cooperative establishes one hundred percent (100) owned subsidiaries, second degree financial enterprises or non-financial cooperative enterprises, it will adopt reasonable policies and procedures that preserve the corporate identity separate from these entities and the limit of the financial responsibility of the parent Cooperative; stipulating that the one hundred percent (100%) owned subsidiaries, second degree financing enterprises or non-financial cooperative enterprises may use the contraction COOP in their official or business names.

Article 2.07 – Authorization to Issue Preferred Shares and Capital Obligations

a) Preferred Shares

1. Subject to the approval of the Corporation – The Cooperative may issue one or more classes of preferred shares or one or more series of shares in any of the classes. The total of preferred shares may never exceed total of common shares issued and outstanding. Any of them may be with or without par value, and in the series and denominations, and with the preferences and relative rights of financial participation, as an option or other special, conditional rights limited or restricted that may be declared and expressed in the resolution of the issuance of the shares approved by the Board of Directors. Except for those voting rights, the holding of preferred shares will not grant voting rights, participation in general meetings, right to be elected or be designated to the governing bodies of the Cooperative.
2. Any preferred shares may be redeemable in the term period and at the prices, and may be issued with the denominations, preferences and relative rights, of financial participation, as an option or other special, rights and their conditions, limitations or restrictions that may be declared in the resolution of the issuance of these shares and that Board of Directors approves with the Corporation's authorization.
3. Holders of preferred shares, of any class or series, will have the right to dividends at the rate and the conditions and term period expressed in the issuance resolution of these shares and approved by the Board of Directors with the Corporations' authorization. These dividends will be payable with preference over, or with preference to, the dividends payable in any other class of shares, and will be or not be cumulative, as consigned. When preferred shares dividends have been paid according to the terms and conditions to which those shares have the right, or when the dividends have been declared and set aside for payment, dividends on the rest of the classes of shares may be paid charging the remnant of the asset for dividend payment the cooperative may have available. Dividends and interests earned by the people who acquire or hold shares of any class issued by the cooperative will be exempt from income tax payment as established in Act No. 120 of October 31, 1994, as amended, known as the 1994 Puerto Rico Internal Revenue Code and from all type of property tax.

4. Preferred shares will not be insured by the Corporation, which will be clearly stated in the ad offers, in every contract and in any other document that evidence the preferred shares. At all time the payment of these shares will be subordinated to the payment of all the Cooperative obligations and liabilities and the capital obligations. The denominations, preferences and relative rights of financial participation, options and others, special rights of each class or series, with the conditions, limitations or restrictions of such preferences or rights, or of both, will be consigned in their totality or in summary in the front or back of the certificate issued by the cooperative to represent such classes or series of shares.
5. The Cooperative's authority to issue preferred shares must be previously consented by the general assembly of members or delegates, as it corresponds, through expressed authorization consigned in these Regulations. Once the authorization has been granted and while it is still active, it will be the Board of Directors authority to define the terms and conditions under which the preferred shares will be issued without subsequent assembly approvals.
6. The Corporation will define through regulations the rules corresponding to the approval of the rules by the Cooperative. The preferred shares issued in conformity with the regulations will be considered as part of the total capital of the Cooperative.

b) Capital Obligations

The Cooperative may issue capital obligations, with previous Corporation approval. Capital obligations will be considered part of the Cooperative capital in accordance with the regulation adopted by the Corporation for that purpose. Those capital obligations may not have a maturity term of less than five (5) years and must be subordinated in law to the obligations toward depositors and with other creditors of the issuing cooperative. The Corporation may require to the Board of Directors to suspend the payment of principal and interests of capital obligations at their maturity or prior to their maturity, when such payment decreases the amount of capital in shares, the reserve fund and capital obligations, or when, at its judgement, said payment may affect the financial solvency of the cooperative or puts at risk the interests of depositors and the general public. Capital obligation may be used as collateral and redeemable in accordance with the terms and conditions approved by the Corporation. The Cooperative may not acquire its own capital obligations, or the capital obligations issued by other cooperatives for its investment portfolio.

Capital obligations will be considered as part of the capital, but will be presented and designated separately in all balance sheets. Such obligations will not be insured by the Corporation, which will be clearly stated in all ad offers, in all contracts and in any other document that evidence such obligations. The dividends and interests earned by the people who acquire or possess capital obligations of any class issued by the cooperative will be exempt from income tax payment as established by Act No. 120 of October 31, 1994, as amended, known as the 1994 Puerto Rico Income Tax Code and from all type of property tax.

Article 2.08 – Rules Regarding Real Estate

The Cooperative may purchase, retain and receive in transfer any real estate for the exclusively for the following purposes:

- a) Whichever are necessary and convenient to carry out its business and operations, including the establishment of branches, service offices and others, being able to lease the space, equipped or not, available in a same structure. For purposes of this Article, the investment in real estate includes the cost of acquisition, construction, rehabilitation and improvements to the real estate of the Cooperative and all capitalizable expenses related to them.

The Cooperative will need prior authorization of the Corporation in order to invest in real estate for its use when the investment exceeds twenty-five percent (25%) of the social capital of the Cooperative, after deducting any accumulated loss. Prior to granting this authorization, the Corporation will analyze the impact that investment may have in the liquidity and operational results of the Cooperative using objective and uniform parameters to be established through regulations;

- b) Whatever is transferred in payment of debts for personal or mortgage loans granted in the course of its operations;
- c) Whatever is acquired in legal sales, by decrees or mortgages in favor of the Cooperative or given in guarantee to ensure the amounts owed it; and
- d) In compliance with its social function and subject to the limitation of twenty-five percent (25%) expressed in subsection (a) of this Article, real estate with a historical, cultural or ecological value, provided they comply with the following requirements:
 - 1. The cultural, historical or ecological value must be certified by the corresponding agency of the Commonwealth of Puerto Rico or by the federal government of the United States, such as the Institute of Puerto Rican Culture, the Department of Natural and Environmental Resources or the Department of the Interior;

2. If the Cooperative has an adequate condition and is not subject to understanding memos, operational agreements or administrative orders duly issued;
3. The reserve for indivisible capital of the Cooperative has reached eight percent (8%) of the total of risky assets;
4. The costs of acquisition, operation, restoration and maintenance of the property will not generate an increase of fifty basis points (0.50) or more in the non-rounded off indicator CAMEL of the Cooperative;
5. The proposed transaction does not exceed the just market value, based on an appraisal issued by an appraiser licensed by the Puerto Rico Examining Board of Professional Real Estate Appraisers, as required by Article 9 of Act No. 277 of July 31, 1974, as amended, and that complies with requirements of the Appraiser Qualifications Board of the Appraisal Foundation or has a license or certification indicating he or she complies with the requirements of Title IX of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA); and
6. The proposed transaction has the approval of the general assembly of members or delegates, as corresponding, and of the Corporation.

The Cooperative must dispose of the real estate acquired under subsections (b) and (c) of this Article, within a term not to exceed five (5) years from the date of acquisition or transfer. Said term may be extended when, in the judgement of the Corporation, the interests of the Cooperative members or the Corporation itself so justify it. Moreover, the cooperative may retain said real estate under subsections (b) and (c) of this Article, if they comply with the demands stated in subsections (a) and (d) of this Article.

The Corporation will order the appraisal and will proceed with the sale in public auction of said properties if the Cooperative has not disposed of them in the previously established terms or prior to the end of any additional time granted or of the permit to utilize them in any other authorized activity. The minimum price of the first auction will be the appraisal ordered by the Corporation. Immediately after the sale, the Corporation will deliver to the Cooperative the net product of the auction after deducting the expenses incurred.

Chapter III – Organization of the Savings and Credit Cooperative

Article 3.01 – Organization of the Cooperative

Except for is stated in Article 2.06 of this Act, five (5) or more natural people, of legal age and residents of the Commonwealth of Puerto Rico, may serve as incorporators of a cooperative organized in conformity with this Act. The incorporation process will be carried out through the subscription of a document containing the incorporation clauses and the general regulations, both in conformity with the stipulations of this Act, Act No. 114 of August 17, 2001 and the regulations adopted under both. Prior to the presentation of the previously required documentation, any group interested in organizing itself as a cooperative must receive orientation from the Corporation regarding the financial and regulatory requirements applicable for the establishment of the new entity and about the governing principles of the cooperative movement. This orientation will be provided by the Cooperative Promotion Administration (Administración de Fomento Cooperativo) or the Corporation will contract it with the Cooperatives League.

The philosophical basis of the cooperative movement and their application, through the organization and operation of savings and credit cooperatives, are essential part of the prior requirement to the authorization of a cooperative. The financial and regulatory requirements come from the clear understanding that the cooperative movement is a different and peculiar way of economic activity, based on the peculiar principles of this type or organization.

The organization of a new cooperative entity will require an affirmative decision from the Corporation to the effect it is necessary and convenient for the people it will serve and will not unduly affect to existing cooperatives, thus contributing to the orderly and adequate development of the cooperative movement in Puerto Rico. The Corporation is authorized to adopt, through regulations, the evidence, documentation and information to be required from proponents and the criteria the Corporation will use to carry out the decision required by this Article. Except for entities organized or controlled by cooperatives, at the conclusion of its first six months of operation, every cooperative must have at least thirty-five (35) members with no family link within the fourth degree of consanguinity or second of affinity among them. Except for second degree cooperatives whose shareholders, members and/or depositors are, exclusively, insured cooperatives, every cooperative organized in conformity with this Act must be enrolled in the insurance offered by the Corporation.

Article 3.02 – Organization by Districts

The Cooperative is organized into two (2) Districts:

- Central of Puerto Rico
- Overseas

The participation of the members will be channeled through the duly elected delegates formed in a members' assembly.

The Central District of Puerto Rico consists of twenty (20) delegates (maximum number allowed by law) and the Overseas District of 3 delegates (minimum number allowed by law). The delegates were duly elected in the members' assembly.

The constitution of the districts must be duly notified to COSSEC.

Article 3.03 – Amendments to the Incorporation Clauses and General Regulations

The incorporation clauses and the general regulations of the cooperative may be amended in any general, ordinary or extraordinary assembly. The amendments must be approved by vote of two-thirds (2/3) of the members present, and, in the case of cooperatives organized by district, with the vote of two-thirds of the delegates present.

The Board will notify all members of the cooperative that there would be an assembly to consider amendments to the general regulations or to the incorporation clauses, with no fewer than twenty (20) prior days. Said notification will expressly indicate the intention to amend the general regulations or the incorporation clauses, will identify the sections or Articles of the regulation that are object of the amendment and their nature and will indicate that a copy of the entire texts of the proposed amendment will be available, free-of-charge, for every member in any of the cooperative branches and service offices, from the date of notification and also at the entrance to the assembly. In the case of cooperatives organized by district, the entire texts of the amendments will be sent to the delegates, together with the notification of the proposed amendments, and all the members will be guaranteed the opportunity to present their point of view regarding the proposed amendments in their respective district assembly, if it has been convoked, or through their delegates in the delegates' assembly.

The amendments to the incorporation clauses or to the general regulations, duly certified by the cooperative secretary will be filed in original and two (2) copies with the Corporation, together with a certification subscribed by the Chairman of the Board of Directors to the effect that the amendments are in agreement with the stipulations of this law, Act No. 114 of August 17, 2001, and the regulations adopted under said laws. Once file with the Corporation, the cooperative will submit the amendments to the incorporation clauses to the Secretary of State to be registered. Stipulating that they would become effective on

the date of the registry. In the case of amendments to the general regulations, they will be filed in the cooperative folder as soon as received by the Corporation and will go into effect on the registry date.

CHAPTER IV – Members

Article 4.01 – Member Requirements

Members of the Cooperative may be, in addition to its incorporators, any person who is not a for-profit legal entity, who complies with the requirements established in incorporation clauses and in the general regulations of the Cooperative. Minors may be members of the cooperative, subject to the limits set in Puerto Rican laws and in the general regulations of the Cooperative. To be a member, it is essential to make periodic contributions to the share account as established in the general regulations of the Cooperative.

Admission as a Cooperative member may not be denied or prevented because of race, sex, religious or political beliefs or social or economic condition, with member eligibility being able to be defined by compatible groups in the exercise of their constitutional right to freedom of association. The Board may deny the admission of a person as Cooperative member when there are based causes to believe they may damage or obstruct the attainment of the goals and purposes of the Cooperative or has been expelled as member or has been separated from a position in the governing bodies of any other cooperative entity.

Since this is a closed Cooperative, members could be:

All employees or retirees of Banco Popular, Evertec, subsidiaries, its parent company; subsidiaries and affiliated entities in Puerto Rico. However, stipulating that the employees who, at the date of the reorganization of any subsidiary organized outside of Puerto Rico, may remain as members of the Cooperative. It is clarified that no new members will be allowed in subsidiaries reorganized outside Puerto Rico.

It is established that pensioners will include those employees of Banco Popular, subsidiaries, parent company and affiliates in Puerto Rico, or others, who:

- a) Are members with a handicap due to sickness and have vested rights for the pension benefit, but do not comply with the age required by the Plan to receive the pension;
- b) Members availing themselves to the State Insurance Fund who after the treatment, because of their handicap cannot return to work within the established time period and who have vested interests for the pension benefit, but do not comply with the age required by the Plan to avail themselves of their retirement;

- c) Members with vested rights for the pension benefit, but who do not comply with the age retirement required by the Plan for retirement and had to dissociate themselves from the enterprise due to its reorganization.

Stipulating, however, that they may not continue being Cooperative members those employees dissociated for causes in their performance that reflects in the good operation of the company and who could damage the best interests of the Cooperative.

Article 4.02 – Members' Rights

Cooperative members will have the following rights and prerogatives:

- a) Participate with voice and vote in general assembly of members on the basis of equality, mutual respect and decorum;
- b) Elect and be elected to hold positions in the Cooperative's governing bodies;
- c) Use the Cooperative services;
- d) Be informed of the statement of financial situation of the Cooperative and of its operations and activities through members on the corresponding reports. Through a sworn statement that expresses its purpose, a member will have the right to examine, for purposes related to his or her interest as a member, during regular business time, the registry of members and the other cooperative books, as well as copying or taking extracts of them; stipulating that no member shall have the right to access information that by disposition of applicable law or regulation be confidential or privileged, including information that are business secrets or strategies. In the event of a controversy about the legitimacy of the member's purpose or of the confidentiality or privilege that surrounds the requested information, the controversy shall be decided by the Corporation;
- e) Learn the state of its accounts, assets and transactions in the Cooperative;
- f) Participate in an equitable way the distribution of the surplus, if any, in accordance with the norms approved by the delegates' assembly; and
- g) Receive, upon becoming a member, copy of the Cooperative's regulations, of the documents it delivers and the operation rules of the Cooperative.

The member's rights and prerogatives set forth in this section, as well as those recognized in the Regulations, will remain pending in all cases in which the member is not up-to-date in the payment of obligations and debts with the Cooperative, including the payment of loans in which the member is a co-signer and the accumulation of shares required by the general regulations.

Article 4.03 – Members' Obligations

Cooperative members will have, regarding them, the following obligations:

- a) Comply with the incorporation clauses, with the general regulations and with the obligations imposed by Act No. 255;
- b) Make periodic contributions to the share account, as stipulated in the Cooperative's general regulations. The Cooperative is authorized to include the periodic payment of said contributions as required in the general regulations as part of the payments of the loans granted to the members and to make direct discount from the deposit accounts to make such contributions;
- c) Safeguard the Cooperative interests and the good credit and public trust toward her;
- d) Comply with every contract, agreement, commitment or social or pecuniary obligation contracted with the Cooperative; and
- e) Responsibly perform all the functions of the position for which he or she was elected or designated and punctually attend the meetings of the committees to which he or she belongs.
- f) Subscription of Shares:
 - 1. Every member must subscribe to at least 12 shares a year. During the first year of membership, the member must pay, at least, a number of shares proportional to the number of months resting on the Cooperative's fiscal year, after becoming a member.
 - 2. The par value of each share will be ten dollars (\$10.00).
- g) Limit of Shares:

The Board of Directors will stipulate, periodically, the maximum number of share the members may subscribe and own.
- h) Share Contribution:

The contributions for shares will be made through payroll deduction depending on the frequency of member's payroll. For active members, the frequency is biweekly and for retired members, the frequency is monthly.
- i) Dividends on Shares:

At the conclusion of the economic year of the Cooperative, the Board of Directors, within the limitations set forth in these Regulations, will recommend to the Delegates Assembly the type of distribution to be paid, is any would be paid, about the balance of capital in shares and not withdrawn so far.

Article 4.04 – Registry of Members

The Cooperative will maintain and keep updated a registry or list of members, which will include the following particularities:

- a) name, address and occupation of each of the members, verifying the credentials and identities of each one;
- b) number of shares held by each member, with its corresponding numbering, if shares so carried, and the amount paid for those shares;
- c) the exact date the member entered the Cooperative.
- d) All transactions of the member with the Cooperative, such as deposits, payments or withdrawal of shares, payment of share installment, granting and payment of loans, collection and payment of interest, must be recorded in an electronic system, prepared for this purpose, or through any automated or electronic accounting system.

Article 4.05 – Voluntary Resignation of Members

Cooperative members may resign voluntarily at any time, in which case the member must notify the Board in writing, in advance. That notification will be taken into consideration by the Board or by the officers, executive officers or employees on whom the Board delegates this function. When the resigning member holds some position in the Board, or in any committee, or is an executive officer of the cooperative, the withdrawal of his or her assets will be subject to the stipulations of Article 6.06 of Act No. 255.

Members who resign voluntarily from the Cooperative will be responsible for all debts and obligations they have pending at the date of the resignation.

Article 4.06 – Causes and Procedures for the Removal of Members

Cooperative members may be removed and deprived of his or her rights for incurring in one of the following causes:

- a) Perform acts that as a result of which the Cooperative must file a claim under the fidelity bond;
- b) Incur in late payment of loans granted to the member and the Cooperative is forced to resort to the loan guarantor or to any legal action or resource for its recollection;
- c) Issue, collect or have collected through the Cooperative, fraudulent checks or without sufficient funds for its payment;
- d) Act against the best interests, goals and purposes of the Cooperative;
- e) Incur in violations of the laws and regulations that govern the Cooperative;

- f) Intentionally or through negligence and in the context of his or her relationship with the Cooperative, make any statement that is, at the time and under the circumstances by which they are made, false or misleading in any material aspect that provoke or may provoke losses to the Cooperative;
- g) Intentionally or through negligence and in the context of his or her relationship with the Cooperative, omit consigning a material fact necessary to avoid that a statement be, at the time and under the circumstances by which they are made, false or misleading in any material aspect that provoke or may provoke losses to the Cooperative; and
- h) Violate an order from the Corporation.

When the Board determines that an action proceeds to remove a member from the Cooperative, the member will be notified by certified mail, specifying the causes for the action. In said notification, the member will be informed about the right to an administrative hearing, which must be held not later than thirty (30) days following the date reception of the notification issued by the Board.

The affected member may attend the hearing alone or accompanied by a lawyer and will have the right to examine the proof presented against him or her, to cross-examine witnesses and to offer favorable proof. The Board will evaluate the proof presented, will its decision within the next fifteen (15) days following the conclusion of the administrative hearing, and will notify it to the affected party by certified mail within five (5) days after issuing its decision. Every Board decision to remove a member from the cooperative will be effective on the date the member is notified.

The Board decisions to remove a member from the Cooperative, may be appealed to an arbitration panel, as stipulated in Article 8.04 of Act No. 255. However, every member who is removed from a cooperative will be responsible for any pending debt or obligation with the cooperative at the date of removal.

People who are removed from the Cooperative for the causes established in this Article may associate again with this Cooperative when there is very reliable evidence that satisfies the Board to the effect that the circumstances that prompted their removal have been overcome or corrected. Every Cooperative member who avails himself or herself to the Bankruptcy Law must comply with requirements established in said Act before reacquiring the capacity to assume debts with the cooperative.

Article 4.07 – Transfer of Shares

- a) By members. – Shares maintained by members in a cooperative will be susceptible to sale, cession, donation and any other transfer of rights or ownership by a member, subject to the following conditions:
- 1) the transfer will be performed only in favor of people who are eligible to be cooperative members;
 - 2) the transfer will be made through an authentic document and with certain date. For the transfer to be effective, said document must be presented to the cooperative to be entered into the member registry. In the event that the transfer is made to a person who is not eligible to be a member, that shows or presents any of the causes that allow the expulsion of members or who, in effect, has been removed as member of a cooperative, the institution may reject the transfer, and notifying the decision to involved parties;
 - 3) all transfers of shares that may affect, reduce or diminish the gravamen, the protection or the guarantee of loans and other obligations toward the cooperative will be null, except if they count with the explicit approval in writing from the institution; and
 - 4) all shares object of a transfer will remain always subject to all the gravamens, restrictions and obligations to which they were subject prior to the transfer.
- b) Shares maintained by members in a cooperative will be susceptible to sale, cession or transfer by the cooperative in the event of the sale of loan portfolio or transactions of sale of assets and assumption of liabilities, subject to the authorization of the Corporation. In such cases, the shares of the transferring cooperative may be converted into shares of the acquiring cooperative, remaining subject to the stipulations of the general regulations of said entity.
- 1) Fines

The Board of Directors may impose fines to the members who cease paying expired installments of their shares.
 - 2) Deposits

The contribution to deposits will be made through authorization of payroll deduction, depending on the frequency of the company to which the member belongs.

3) Withdrawal of Capital and Shares:

- a) When a Cooperative member voluntarily retires or is expelled from it, the member will be paid, after discounting any debt with the Cooperative (including debts contracted as solidary debtor, surety or guarantor, no matter if personal benefit from said loan was derived or not), the amount of money said member may have paid for shares and deposits, plus the amounts of dividends, sponsorships and interests duly earned and credited up to the date of retirement or expulsion. Said payment will be made within thirty (30) days following the retirement or removal as member.
- b) The Cooperative may require that the notification for withdrawal of deposits be made thirty (30) days prior and that the notification for withdrawal of shares be made with ninety (90) days anticipation.

4) Withdrawal or Transfer of Shares by Members of the Board or Committees

Board members, members of committees, delegates, executive officers, employees and Cooperative members who participate directly in the management of the cooperative, may not withdraw or transfer their shares while holding their positions or functions in it. Any withdrawal or transfer of shares made by these people in the six (6) months prior to the date the Corporation determined that the solvency or liquidity of the cooperative is in danger or at the date the Corporation decides to use any mechanism authorized by law to safeguard its interests, whichever occurs first. In such case, said people will continue to respond to Cooperative or to the Corporation or to any other guarantor for the value of the shares they have withdrawn or transferred.

However, in cases of emergency or extreme needs, members of the Board, members of committees, delegates, executive officers, employees and Cooperative members who directly participate in its management, may withdraw or transfer their shares, with prior authorization of the Board of Directors. In such case, members of the Boards, members of the committees, delegates, executive officers, employees and Cooperative members who directly participate in its management, will continue responding to the Cooperative creditors, to the Corporation or to any other guarantor, in conformity with what has been previously established.

Chapter V. – Assemblies, Board of Directors and Committees

Article 5.01. – Assembly and Fiscal Year

This Cooperative is organized by districts. To that effect, the Board of Directors, with the approval of the Corporation, will create those districts that may be necessary in accordance with the growth and best operation of the Cooperative.

The Board of Directors may decide the dissolution of dissolution one or more districts, previous consultation with those members and the approval of the Corporation.

The general assembly is the maximum authority of this Cooperative and its decisions are compulsory for the members present and those not present, its Board and committees, provided they are approved in conformity with the Incorporation Clauses, the General Regulations and applicable laws.

In the case of this Cooperative, which is organized by districts, the general assembly will be the assembly of delegates. The Cooperative will hold district assemblies in which district directors and the delegates corresponding to each district will be elected. The number of delegates to be elected in each district will never be fewer than three (3) delegates nor fewer than one (1) percent of the total number of members in the district, up to a maximum of twenty (20) per district.

The general assembly of members and the general assembly of delegates must be held annually within the first four (4) months of the Cooperative's fiscal year. For justified cause and to the satisfaction of the Corporation, the general assemblies of members and delegates, as corresponding, may be held at a later date to that previously established, seeking at all time to preserve the members' rights to be informed regarding the operating results, to timely elect delegates, directors and committee members and to receive the corresponding surplus distribution, if any, no matter if said assembly is considered ordinary or extraordinary.

It will be the responsibility of the Board of Directors to seek the celebration of the assemblies as soon as possible. Stipulating that, in any event, in which six (6) months or more have elapsed following the end of the Cooperative's fiscal year without the general assembly of members or delegates having been held, the Corporation will issue an order to the Board of Directors to show cause why fines have not been imposed to the directors for the delay in holding such assembly.

Every district and delegates' assembly, whether ordinary or extraordinary, must be convened with no fewer than ten (10) days prior to its celebration.

The fiscal year of the Cooperative will begin on **January 1 and end on December 31 of each year.**

Article 5.02 – Convocations

The Board of Directors may convene extraordinary, general or district assemblies, when deemed convenient. The cooperative must convene extraordinary assemblies when requested by:

- a) ten percent (10%) of the total number of Cooperative members, when in a general assembly of members;
- b) ten percent (10%) of the total number of members in a district, when in a district assembly; or
- c) fifty percent (50%) of the total number of delegates, when in a general assembly of a cooperative organized by districts.
- d) The convocation will specify the topics to be discussed in the extraordinary assembly.

Conducting the Assemblies:

- a) The General Assemblies of Members, whether ordinary or extraordinary, will be conducted by the President, the Vice President or, in their absence, by the Director so designated by the Board of Directors.
- b) The Board of Directors, directed by its President, will prepare the agenda to be followed in the assembly.

Notification to COSSEC:

- a) Within twenty (20) days following the election of directors and committee members, the number secretary of the Board of Directors must inform COSSEC about the outcome of the assemblies, as well as the names and addresses of directors, officers or committee members, in conformity with the stipulations of this regulation and of law.
- b) In the event of vacancies, COSSEC must be notified in writing about the member who causes the vacancy and his or her substitute, not later than twenty (20) days following the date in which the substitute assumes the position. The same stipulation applies with vacancies in the committees.

Article 5.03 – Quorum

In every general assembly of members or district, a quorum no lower than ten percent (10%) of the first one thousand (1,000) members and of three percent (3%) of the excess of one thousand (1,000) members; stipulating that those members who are minors will not be considered for purposes of computing the required quorum, and will not be considered as attending MEMBERS to complete said quorum. Similarly, those members who are not up-to-date in their obligations toward the Cooperative at the date of the convocation will also be excluded from both calculations.

In the event a first convocation cannot attain the required quorum, a second convocation for the assembly will be issued, in which quorum will be attained by the members or delegates attending, with the exclusion of unemancipated minors or those members who are not up-to-date with the cooperative at the time the convocation is sent. Stipulating that once this special quorum is attained, it will not be required to maintain the same number of members while the assembly is meeting. The second convocation will never be made in a waiting period of less than thirty (30) minutes from the first convocation, provided the first and second convocations have been expressly pointed out in the written notifications sent to the members or delegates, as corresponding, with an express indication that in the second convocation quorum will be established by those present excluding unemancipated minors y those members who are not up-to-date in their obligations toward the cooperative at the date the convocations was sent.

In the delegates' assembly a quorum will be required from a majority of the elected delegates. In the general assemblies of members or delegates, as corresponding, the quorum will never be less that the number of the total number of members to be elected to the Board and for the credit and supervision committees.

The members of the Board and the committees that are elected as delegates in an assembly must abstain from voting for their respective reports or topics related to their functions.

Article 5.04 – Right to Vote

Members of the Cooperative, be they natural or legal persons, and independent of the number of shares they possess will have the right to one (1) vote each one. No member may submit his or her vote through a representative, except in the case of members who are legal entities, in which case they may vote through their authorized representative. In the case of cooperatives organized by district, each district delegate will likewise be entitled to one (1) vote.

Agenda in in the Ordinary General Assembly of Members:

- a) The Board of Directors will prepare the Agenda to be followed in the Assembly. However, the following items must be included:
 - 1) Beginning of the meeting
 - 2) Quorum determination
 - 3) Reading, discussion and approval of the Minutes of the previous Assembly
 - 4) Reports:
 - President
 - Management or Executive Officer
 - Supervision Committee
 - Education Committee
 - Other reports
 - 5) Amendments to the Regulations and/or Incorporation Clauses of the Cooperative
 - 6) Election of Directors and Members of the Supervision Committee.
 - 7) Pending matters
 - 8) New matters

Article 5.05 – Requirements of the Members of Governing Bodies

Members of the governing bodies of the Cooperative may only be members who at the time of their election or designation and at all time during their incumbency in their respective positions comply and maintain themselves in compliance with the following requirements:

- a) be natural persons;
- b) may not have been convicted of a felony or misdemeanor that involves fraud, breach of trust or moral depravation. Neither can be members people convicted of a felony or misdemeanor that involves a violation of the integrity or public trust. Every person elected or designated to any governing body must present to the Cooperative a criminal record certificate duly issued by the Puerto Rico Police not later than sixty (60) days after their election or designation.
- c) comply with the regulations adopted by the Corporation to preserve the integrity and prevent conflicts of interest in the cooperatives;
- d) do not possess an economic interest, directly or indirectly, in any public or private enterprise, for profit or non-profit, whose businesses compete with the Cooperative businesses;
- e) confirm their capacity to serve in the positions complying with all the requirements set forth in the general regulations of the Cooperative. No person who is the object of a mental disability, total or partial, issued by any government body may be a member of the Board of Directors or of the Cooperative committees;

- f) do not hold any position in the government bodies of another savings and credit cooperative;
- g) do not hold nor have held during the last twenty-four (24) months positions of executive officer or employee of a cooperative, the Cooperative bank or of cooperative insurers;
- h) be eligible to be covered by a fidelity bond for cooperatives, except in the case of members or candidates for the assembly of delegates, to whom this requirement does not apply;
- i) not have been expelled as members nor separated from their position as members of a governing body or as an executive officer of any cooperative, for causes established in Act No. 255, or as a member of the Board of Directors or of committees of, or as executive officer of any bank or savings bank, as defined in the Puerto Rico Banking Act and the Puerto Rico Savings Bank Act, respectively, or the Puerto Rico Cooperative Bank;
- j) that during the twelve (12) months prior to the election or designation have not shown unfulfillment with any of his or her obligations and debts with the Cooperative, including annual or periodic contributions to his or her shares account, as required by the general regulations of the Cooperative;
- k) take and pass the training courses endorsed by the Corporation during the first year of the appointment and comply subsequently with the demands of the continued education program adopted by regulation by the Corporation. Stipulating that these requirements will not be applied to the members or candidates to the delegates' assembly; and
- l) people who, from the day Act No. 255 goes into effect, occupy an elective position in the central government or as Mayor, except those who hold a position as municipal legislator, may not be members of the Board of Directors or of the committees.

Any person who at the time of being elected or designated to fill a position in a governing body shows any of the ineligibility causes previously described in this Article is prevented from occupying and carrying out the functions of the position, without the need to carry out an expulsion process. In such cases, the position will be declared vacant and covered as stipulated in Article 5.08 of Act No. 255.

Article 5.06 – Election and Formation of the Board of Directors

- a) In the case of the Cooperative, the general assembly of members will cover, through election, the positions of the Board whose terms have expired.
- b) In cases in which for any circumstance the election of directors cannot be held in the ordinary general assembly of members, said election may be held in an extraordinary assembly.

- In the case of the cooperatives, the members of the Board who represent each district will be elected in the district assembly, in conformity with the number of said directors corresponding to each district, according to the general regulations. At-large positions in the Board, if any, whose terms have expired will be covered by election in the general assembly of delegates.
- c) The Board of Directors will be composed of eleven (11) members.
- d) In any case, the Board of Directors will be composed of no fewer than seven (7) nor more than fifteen (15) members.
- e) Every person who aspires to be a member of the Board of Directors, at the time of the election, must have been a member of the Cooperative for a period of one (1) year and fully complied with his or her obligations as a member during that period.

Article 5.07 – Terms of a Position

a) General Rule

Each member of the Board shall be elected for a term no longer than three (3) years and will occupy the position until the successor is elected.

Members of the Board may not be elected for the same position or another elected one for more than three (3) consecutive terms. For the purpose of this stipulation, the election term means the period of time for which the person is elected by the general assembly of members, as corresponding, independently that the period is not complied with because of resignation or any other cause. In cases in which a member of the Board resigns before the expiration of the first or second term of the election and is elected again in the assembly following the resignation, such terms will be considered as consecutive.

b) Of this Cooperative

The election of Board of Directors members will be staggered so that the election term of no fewer than a third (1/3) part of the members of said Board expire the same year. The time of incumbency by designation as member of the Board will count as a term only when the position is held for more than one (1) year. The members of the Board who hold elected positions that expire on his or her last consecutive term cannot be elected or designated for the same or other elected position in the same cooperative, until twenty-four (24) months have elapsed since leaving their position.

Article 5.08 – Vacancies

Vacancies that arise among the Board members will be covered through designation by majority vote of the other incumbent members, duly constituted to that effect, subject to ratification by the next general assembly of members, the next district assembly or the next assembly of delegates, as corresponding. When the cooperative is organized by districts, the member causing the vacancy is a member representing a district, it will be covered by the Board with another member of the corresponding district.

Every person named by the Board to cover a vacancy will be considered in the next general assembly of members, the next district assembly or the next assembly of delegates, as corresponding. In the event the corresponding assembly ratifies the designation, such director will occupy the position until the completion of the term for which the original director was elected. In the event the designated member is not ratified, the assembly will elect a director, who will occupy the position until the completion of the term for which the original director who caused the vacancy was elected.

Article 5.09 – Duties of the Board Members and Election of Officers

Board members will be responsible for the definition and adoption of the institutional policies of the Cooperative, will have a fiduciary responsibility toward it and its members and must act as a good family parent in all Cooperative matters.

The Cooperative Board will meet within ten (10) days following the date of the celebration of the assembly of delegates, as corresponding, to elect from among its members the officers of their Board of Directors, in conformity with what the general regulations establishes. Eligible to occupy officer positions in the Board of Directors are the directors who have held the position of director for one (1) year or more and who have approved the training courses required in Article 5.05 (k) of Act No. 255.

Article 5.10 – Rights and Duties of the Board

- (a) It is the right, responsibility and fundamental duty of the Board to define the policies, rules and general guidelines related to the operation and function of the Cooperative; management, under the direction of the Executive Presidente, will be responsible for implementing them. In the execution of said responsibility, the Board of Directors will adopt the following policies and rules in conformity with the stipulations of Act No, 255 and the regulations adopted under it:
 - (1) parameters and policies of prices applicable to the different products and services offered by the Cooperative, which must take into consideration, among other factors, market trends, obtaining reasonable yields that ensure the profitability and sustained

development of the institution, the needs of the members and the definition of prudence parameters for management that allow the necessary operational alertness and flexibility to ensure competitiveness of the Cooperative;

- (2) the investment policy of the Cooperative;
- (3) the lending guidelines of the Cooperative;
- (4) the institutional guidelines and policies for compensation and remuneration for services rendered to be earned by Cooperative executive officers and employees;
- (5) the education policy of the Cooperative;
- (6) the marketing policy;
- (7) the policies related to human resources, including, as a minimum, a policy against work harassment, licenses and benefits for employees, internal work policies regarding conflicts of interest, internal policies about attendance, punctuality and other aspects pertaining to the work performed in the cooperative. In addition, a policy about conduct and disciplinary actions, and the guidelines for compensation, remuneration for services rendered to be earned by executive officers and the Cooperative employees;
- (8) the operational budget of the Cooperative; and
- (9) the Code of Ethics applicable to members of Cooperative governing bodies and employees.

(b) In addition, the Cooperative Board will have the following rights and duties:

- (1) name the Executive President of the Cooperative, who will perform the managerial and administrative functions of the Cooperative and will perform additional duties and responsibilities delegated by the Board. It will be the duty and prerogative of the Executive President to name the rest of the officers and employees of the Cooperative, as well as to carry out the managerial and administrative functions of the Cooperative, including the implementation of the institutional policy established by the Board;
- (2) ensure the implementation and fulfillment of institutional policies. In addition, the Board will supervise and evaluate the performance of the Executive President;
- (3) define the rules for approval of membership application and removal of members. The function to consider and approve the membership and removal applications made under the rules as defined by the Board will correspond to the officers and employees of the Cooperative who were designed for that function by the Executive President, who will file a monthly report to that effect to the Board;

- (4) order the removal of members for the causes and in conformity with the procedure established in Article 4.06 of Act No. 255;
- (5) make sure that all members of the Board, of Cooperative committees, the executive officers, employees and everyone who manages cooperative funds are covered by a fidelity bond for the amount and form established in the regulations adopted by the Corporation. Every person who is ineligible or whose fidelity bond has been canceled, may not hold any of the positions or jobs previously mentioned;
- (6) submit to the annual general assembly of members or delegates, as corresponding, his or her recommendations for amendments to the general regulations and to the incorporation clauses of the Cooperative;
- (7) ensure that all insurable risks are adequately covered by insurance, so that the Cooperative does not suffer any loss because of contingencies or insurable risks;
- (8) convene the assemblies of members or delegates, whether ordinary or extraordinary, to consider the issues that must be brought to the attention of the members or delegates;
- (9) at his or her discretion, designate an Executive Committee formed by at least three (3) members of the Board to execute the agreements and decisions delegated to it;
- (10) designate the members of the Education Committee in accordance with Act No. 255, as well as any other committee deemed necessary and convenient to perform the purposes of the institution;
- (11) assign to the Cooperative committees reasonable resources to carry out their functions. Prior to the assignment of said resources, the committees must prepare a specific and concrete work plan in conformity with the administrative and operational policies of the Cooperative, that counts on the expressed approval of the Board.
- (12) define the parameters for contracting consulting services, consultants, lawyers and other professionals, whose orientation and associates may be necessary and convenient for the operation of the Cooperative or for planning and developing of the activities and the attainment of goals and objectives;
- (13) perform any other duties, obligations and rights stipulated in Act No. 255 and in the general regulations of the Cooperative and put into practice all the responsibilities inherent to a similar board; and
- (14) carry out the contracting of Certified Public Accountants who will be in charge of performing account intervention annually.

(c) Meetings:

1. The Board of Directors must meet once a month on the day, place and time that it sets and as frequently as deemed necessary, prior convening by the President.
2. The Board Secretary is under the obligation to convene the meetings whenever the majority of the members of the Board so request.
3. The Chairman of the Board of Directors, in coordination with the Board Secretary, will prepare the Agenda for the meeting.
4. The Board and committee meetings may be carried out in presence or virtual, according to the needs of the Cooperative, the Board of Directors or the committees.

(d) Duties of the President:

- 1) Convene and preside over the Ordinary Assemblies of Members, as well as the extraordinary and the and the Board of Directors meetings.
- 2) Authenticate with his or her signature all the promissory notes of the Cooperative and all those documents that, by law, regulation or rule, require his or her signature.
- 4) Exercise all those functions corresponding to his or her position and those the Board of Directors orders by resolution and that are compatible with the law and these Regulations.

(e) Duties of the Vice President:

By delegation or absence of the President or by assignment of the Board of Directors, the Vice President will assume all the duties, responsibilities and rights of the President.

(f) Duties of the Secretary:

- 1) Sign together with the President all the convocations for the Assembly of Members and the Board meetings.
- 2) Prepare and preserve the Minutes of the Assemblies of Members and the Board meetings.
- 3) Notify in writing to the different committees, standing groups and the Cooperative management the agreements and/or resolutions adopted by the Board of Directors or in the assemblies.

- 4) Perform any other function assigned by the Board that is compatible with the law and these regulations.

(g) Duties of Treasurer:

- 1) This officer, prior to assuming his functions, must present an adequate bond with the due scope to guarantee the trustful performance of the position. The Board will select the insurance company that will provide the service and will set the amount of the bond, which will be covered by the Cooperative.
- 2) In consonance with the rules established by the Board, this officer will custody all the funds, securities, important documents and any other property of the Cooperative, except the document of his or her bond, which will be under the custody of the officer designated by the Board.
- 3) will sign with the President all the promissory notes and other obligations and securities of the Cooperative and all discounts that by law, regulation or rule require his or her signature.
- 4) will ensure that a trustful and exact accounting system of the Cooperative transactions is maintained.
- 5) will prepare, together with the Executive President, and to present and discuss with the Board of Directors at the ordinary monthly meeting, a monthly report of the financial situation, which will include all the transactions up to the close of the previous month.

(h) Designation of a Deputy Secretary:

The Board of Directors may name a Deputy Secretary and delegate on him or her any of the duties of the Secretary.

(i) Designation of a Deputy Treasurer:

The Board of Directors may name a Deputy Treasurer and authorize him or her to perform any of the functions of the Treasurer. In the absence of the Treasurer, he or she may perform his functions. Similarly, he or she will present a bond adequate to the amount determined by the Board, which will be covered by the Cooperative.

Article 5.11 – Designation, functions and responsibilities of the Executive President

Acting in conformity with the institutional policies adopted by the Board of Directors of the Cooperative, the Executive President will have the following functions and responsibilities:

- (a) implement the institutional policies adopted by the Board;
- (b) select, recruit, supervise, evaluate and remove all the Cooperative staff in accordance with the institutional policies adopted by the Board. In addition, he or she will be responsible for coordinating and supervising the administrative units and ensure the efficiency of the managerial and financial procedures;
- (c) develop and implement a management training and cooperative education that covers technical areas of management, marketing, accounting and finances and that educates about the principles and philosophy of the cooperative movement.
- (d) develop and implement regulatory compliance programs that ensure the faithful compliance with local and federal laws and regulations applicable to the operations of the institution;
- (e) prepare a business plan for the Cooperative, to promote an adequate and sustained financial performance through the adoption of operational goals, strategies and objectives that can be measured and can provide guidance to the Cooperative. If deemed appropriate, the Executive President will identify the external professional resources that may assist him or her in preparing said plan, and whose contracting will be made in compliance with the contracting rules and policies of the institution. Said plan will require the final approval of the Board of Directors. The Executive President will exercise the administrative authority to implement the institutional policy agreements and the guidelines of the institution's business plan, and will prepare the corresponding annual work plans to attain the goals, strategies and objectives of the Cooperative business plan;
- (f) prepare the budget project, which will be submitted to the Board of Directors for its consideration and approval before the beginning of the operational year of the Cooperative; and
- (g) Maintain the Board of Directors informed about the Cooperative's operational, administrative and financial condition, for which monthly ordinary reports will be submitted to the Board of Directors, as well as any other special report that to his or her judgement or the judgement of the Board of Directors should be submitted.

Article 5.12 – Election and Composition of the Supervision Committee

On the first general assembly of members or delegates of the Cooperative, as corresponding, the Supervision Committee will be elected from among the members, which will be composed of three (3) members. The Supervision Committee members will be elected for a term not longer than three (3) years each one, who will occupy their positions until their successors are elected.

Regarding their reelection, the members of the Supervision Committee will be subject to the same limitations as the Board members. These Cooperative general regulations provide for the staggered election of its members by general assembly of members or delegates, as corresponding, so that the election term of no more than a third (1/3) part of the members of said committee expire the same year.

When a vacancy among the members of the Supervision Committee occurs, the remaining members will designate an eligible member to cover the vacancy, subject to the ratification by the next general assembly of members or delegates, as corresponding. Any person named to cover a vacancy will appear for consideration of the next general assembly of members or delegates, as corresponding. If ratified by the corresponding assembly, said committee member will occupy the position until the expiration of the term for which the original committee member who provoked the vacancy was elected.

Article 5.13 – Functions and Responsibilities of the Supervision and Auditing Committee

The Supervision and Auditing Committee of the Cooperative will have, in addition to any others as stipulated in Act No. 255, in their regulations, the following functions and responsibilities:

- (a) assist the internal and external auditors in their examination of the accounts and operations of the Cooperative and make the interventions they consider necessary or convenient for the best interests of the Cooperative;
- (b) receive and analyze the reports from external auditors and the Corporation;
- (c) submit to the Board a report about the results of the examination to the Cooperative, not later than thirty (30) days following the date it was concluded;
- (d) submit a written report to the general assembly and the Corporation regarding the work performed by said committee during the year, with the understanding that the committee must not express comments about the effectiveness or efficiency of the administrative actions of the Board. Said report shall not include information that, by stipulation of the applicable law or regulations, is confidential or privileged. The Supervision and Auditing Committee will present and discuss this report with the Board not later than twenty (20) days prior to the celebration of said assembly;

- (e) serve as mediator in any member controversy that arises in the application of normative and regulatory stipulations of the Cooperative, provided they are not labor-management controversies;
- (f) make sure the Cooperative complies with the recommendations mentioned in the audits performed, will watch for the legality of the Board and management actions, the veracity of the reports they present to members, and the safety of the Cooperative assets;
- (g) request to the Board of Directors that they contract the staff the Committee needs to perform its functions and fulfill the responsibilities, subject to the allocation of funds the Board authorizes in accordance with the work plan presented by the Committee;
- (h) the Supervision Committee may recommend to the general assembly the suspension or removal of any Board member or of another committee who has incurred in violations to the stipulations of Act No. 255, with a previous formulation and notification of the charges and holding a hearing before the committee. The person charged may attend the hearing with lawyers; and
- (i) perform all other functions assigned by the assembly.
- (j) The Committee will meet as often as deemed necessary to faithfully comply with its functions.

Article 5.14 – Designation and Composition of the Credit Committee

The Board of Directors will designate a Credit Committee, composed of no fewer than three (3) full-fledged members and two (2) substitute members, who will exercise the functions of those who occupy the positions proper in every case there is a temporary absence. The Credit Committee members will be designated for a term not to exceed one (1) year each and will hold their positions until their successors have been named and may be redesignated in their positions. Vacancies that arise among the Credit Committee members will be covered by the Board for their unfinished term.

In addition, the Board may designate Credit Officer, to whom they may delegate the authority to evaluate loan applications and authorize their approval, up to the maximum limits set by the Board. Such officers must inform the Credit Committee about all the applications denied, for the pertinent action, and will submit to the Credit Committee a written report, with the frequency established by the Board, but not fewer than one (1), a month about the loans authorized and denied.

Article 5.15 – Functions of the Credit Committee

The Cooperative Credit Committee will also practice, in addition to any others as stipulated in Act No. 255 or in its regulations, the following functions and responsibilities:

- (a) consider, approve or deny loans for amounts in excess of those the Credit Officers are authorized to grant, but up to the maximum limits set forth by loan rules established by the Board. Loan applications of members of governing bodies, the Supervision Committee and the executive officers in excess of their shares and deposits, will be considered in a meeting in which a member of the Supervision Committee will be present, and who will participate with voice and vote in said meeting;
- (b) evaluate and submit to the Board for consideration and final decision the loan applications that surpass the maximum limits the Committee is authorized to grant;
- (c) review and analyze the reports from the Credit Officers about loans granted or denied and inform the Board regarding them; and
- (d) submit to the Board a monthly report about the loans the Committee grants or denies.

The Credit Committee will meet as often as necessary to discharge its functions, previous agreement of its own, or convocation by its president or the Executive President.

The quorum will be established by the majority of the proper members of the Committee.

Article 5.16 – Designation and Composition of the Education Committee

The Board will designate an Education Committee to develop a cooperative education program, following the norms adopted by the Board in conformity with stipulations of Act No. 255. This Committee will be composed by not fewer than three (3) members not more than seven (7), of which at least half of them may not be members of the Board, nor of Committee other Cooperative committees. Members of the Education Committee will perform their duties for a term of one (1) year and will exercise their positions until their successors have been named, and may be redesignated in their positions by the Board of Directors. Vacancies in the Education Committee will be covered by the Board for the unfinished term of the outgoing member.

Article 5.17 – Education Policy

The Board of Directors will adopt an education policy geared to the education of members, governing bodies, managers and employees, aimed at facilitating and promoting:

- (a) generation of new volunteer leaders with financial technical knowledge;
- (b) personal financial education at the individual and family level, aimed at developing a better credit consumer, reduce the incidence of bankruptcies and promote savings and investment in productive activities; and
- (c) education regarding the guiding principles, doctrines, nature and benefits of the cooperative movement, particularly for young people and opinion creators.

The Board of Directors will provide in the Cooperative budget the necessary resources for the implementation of the education policy and will supervise continuously its execution and implementation. The budgetary items assigned for education will be destined to provide direct education services.

The doctrinaire contents about the cooperative movement of the education policy must be based on the principles approved by the Cooperative League. It will be the express obligation of the Corporation to verify the use of the budget assigned for direct education services. What has been mentioned, without detriment to the obligations of the Cooperative, its governing bodies and employees to comply with the continued education requirements stipulated by the Corporation in accordance with Act 114 of August 17, 2001.

Article 5.18 – Function of the Education Committee

The Education Committee will have the following functions and responsibilities:

- (a) in conformity with education policy established by the Board, prepare a work plan:
 - (1) care for the training needs of members of the governing bodies regarding inherent matters to the functions to be performed;
 - (2) provide education to the Cooperative staff about the principles, methods and features of the cooperative movement and the business management of the Cooperative;
 - (3) provide information to the community about the benefits and service of the Cooperative and of the cooperative movement in general; and
 - (4) coordinate the education and training processes for the development of new cooperative leaders and future members of the governing bodies.
- (b) submit to the Board a written report every six months about the work performed during that period; and
- (c) submit to the general assembly an annual report about its activities and achievements.

Article 5.19 – Designation and Composition of the Youth Committee

The Board of Directors will designate a Youth Committee to promote youth cooperative movement and develop initiatives to attract youth, following the norms adopted by the Board of Directors in conformity with the stipulations of this Chapter. The Youth Committee will be composed of no fewer than three (3) nor more than five (5) members between the ages of eighteen (18) and twenty-nine (29) years of age, of which at least half of them may not be members of the Board of Directors nor of any other cooperative committees. Members of the Youth Committee will serve in their positions for one (1) term of one (1) year and will remain in their positions until their successors have been named and may be redesignated in their positions by the Board of Directors for four (4) additional terms. In the case of closed cooperatives, as defined in subsection (I) of Article 1.03 of this Act, the implementation of the Youth Committee will be evaluated by its Board of Directors, due to the nature of these cooperatives and its service population.

Article 5.20 – Functions of the Youth Committee

The Youth Committee of each cooperative will have the following functions and responsibilities:

- 1) promote the participation of youth in the cooperative experience to attain an integrated development in education, community, social and economic realms;
- 2) promote the establishment and incorporation of youth cooperatives in schools, communities and universities, that are within the territorial limits of the cooperative, as stipulated in Act 220-2002, as amended, known as the "Special Youth Cooperative Act";
- 3) implement programs or workshops for the formulation of activities geared to create cooperative enterprises aimed at the cooperative business development. In addition, provide financial education orientation to youth about the importance of savings and the good use of credit;
- 4) assist the Education Committee in coordinating the formation and adequate training processes for the development of new cooperative leaders who responsible aspire to the decision-making positions in the Governing Bodies of the cooperative;
- 5) draw up an annual work plan in which activities are develop for compliance of the objectives stipulated in the Act, the Regulations and through the mandate of the General Assembly of Members and the Board of Directors;
- 6) submit to the Board of Directors a written report every six months about the work performed in the corresponding period; and
- 7) submit a report annually to the General Assembly of Members about their activities and achievements.

Article 5.21 – Vacancies in the Youth Committee

The Board of Directors will cover annually the vacancies that arise in this Committee.

Article 5.22 – Compensation and Reimbursement of Expenses

- a) None of the members of the governing bodies will receive any compensation or remuneration for performing their functions. However, these general regulations of the Cooperative may authorize the payment of a reserve for attending official meetings, subject to the rules specifically adopted by the Corporation to that end. Such rules will stipulate, among other things, the maximum amount allowable by meeting, the maximum annual amount allowable for this concept and prohibited practices regarding the payment of these amounts.
- b) In addition, the Cooperative may reimburse reasonable expenses in which the members of governing bodies really incur while performing their functions, previous documentary evidence, in accordance with the regulation the Board of Directors of the Cooperative may adopt. In addition, the Corporation is authorized to adopt specific regulations about this matter, which could define reasonable amounts and prohibited practices regarding expense reimbursement. It will be the responsibility of the Board of Directors to look after the faithful compliance with the rules stipulated in the Cooperativa regulations and in the regulations adopted by the Corporation in this regard.
- c) Payments made under this Article will only cover official traveling expenses that promote specifically the interests of the Cooperative and that benefit it. The detail of all amounts paid for this concept will be disclosed in an expressed form in the annual report distributed to members.
- d) The Cooperative that during two (2) consecutive years has not distributed surpluses among its members may not make any payment to members of the governing bodies.
- e) Every payment for commission, incentive, benefit, promotion or any other matter of value that the Cooperative receives will be for its exclusive benefit and will not be of any advantage or benefit for members of the governing bodies, the Executive President or any other employee.
- f) Nothing of the previously mentioned will restrict the authority of Cooperative to provide the executive officers and the members of the governing bodies the necessary insurance to protect each one while performing the functions of their positions. In addition, the Cooperative may purchase for them the following insurance:
 - (1) life insurance;
 - (2) insurance against cancer and harmful diseases;
 - (3) public liability insurance; and

- (4) insurance designed by insurance cooperatives, specifically for officers and members of governing bodies in their official functions.

Article 5.23 – List of Directors and Committee Members

The Cooperative must submit to the Corporation and the Ligue of Cooperatives a full list of the members of their governing bodies indicating the official position each occupies.

These lists must be accompanied with any other related information the Corporation requires and will be submitted not later than twenty (20) days after the date in which the members are elected or designated. In the event of vacancies, a written notification must be sent to the Corporation and the League of Cooperatives indicating the name of the member of the governing body that causes the vacancy and his or her substitute, not later than twenty (20) days following the date the substitute takes assumes the position.

Article 5.24 – Causes for the Separation of Members from Governing Bodies

Every member or officer of governing bodies may be separated from their position for the following causes:

- a) incur in any of the acts for cause to separate members of a cooperative as established in Article 4.06 of Act No. 255;
- b) violate the stipulations of Act No. 255, Act No. 114 of August 17, 2001, known as the Corporation Act or any of the laws applicable to the operations of the cooperative or of the regulations adopted or administrative orders duly issued under such laws and regulations;
- c) violate the incorporation clauses or the general regulations of the Cooperative;
- d) incur in such conduct that constitutes a violation of his or her fiduciary duties;
- e) cease to be eligible in accordance with this law and its regulations, for the position he or she occupies or that his or her participation in Cooperative matters be detrimental to the best interests or its economic solvency;
- f) engage in a pattern of absences without justified cause for it. The Code of Ethics of the Cooperative will contain the pertinent rules, parameters and procedures for this matter;
- g) engage in inadequate practices while performing his functions in the Cooperative;
- h) failing to comply with the requirements set forth in Article 5.05 of Act No. 255; and
- i) prevent, make it difficult or unduly interfere by action or intentional omission or negligence that any assembly of the Cooperative be convened or held as stipulated in Act No. 255, the regulations adopted under it, the charter of the Cooperative or its general regulations.

Article 5.25 – Procedures for the Separation

a) Members of the governing bodies may be separated from their positions, as expressed here:

- (1) **At the request of members** – Any member may initiate a procedure for separation against a director, by filing with the Secretary or Board of Directors Chairman and with a copy to the Supervision Committee, a written request mentioning the alleged charges, signed by five percent (5%) of all the members or by ten percent (10%) of the delegates.
- (2) **At the request of the directors** – Any director may initiate a procedure for separation against another director by filing with the Secretary or Board of Directors Chairman and with a copy to the Supervision Committee, a written request mentioning the alleged charges, signed by two thirds (2/3) of the remaining members of the Board.

Every separation request presented as an initiative of the members, delegates or directors will be submitted to the consideration of the next general assembly, which could be convened extraordinarily for that matter. The assembly could separate a Director of the Board with the concurrent vote of the majority of members or delegates present, as corresponding.

The Board member affected by a decision of the assembly separating him or her from the position will have the right to submit to the next general assembly, which could be convened extraordinarily for that effect, a written request for reconsideration of his or her removal. The assembly decision may be appealed to an arbitration board, as stipulated in Article 8.04 of Act No. 255.

- b) **Board Officers** – Board officers may be separated from their functions with the majority vote of the Board, with prior notification of the causes for which they were separated from the position. The Board decision will be solely to relieve the person from the functions as Board officer and will not have the effect to relieve him or her from being a member of the Board, for which in every case the disposition in subsection (a) of this Article must be followed. The Board's decision separating from his or her function one of its officers may be appealed to an arbitration board as stipulated in Article 8.04 of Act No. 255.

- c) **Committee Members** – Committee members named by the board may be separated from their positions by the Board prior notification of the alleged charges and the holding of a hearing to which they may attend by themselves or accompanied by their legal representative. The Board's decision separating him or her will be only to the effect of relieving the person from the functions as committee member and will not have the effect of relieving him or her as member of the Board, for which in every case the disposition in subsection (a) of this Article must be followed.

The Board's decision separating from his or her position a member of a committee may be appealed to an arbitration board, as stipulated in Article 7.07 of Act No. 255.

- d) **Members of the Supervision Committee** may be separated from their positions in a general assembly of members, as corresponding, following the same procedure as for Directors as specified in subsection (a) of Article 5.22 of Act No. 255.

e) **Adjudicating Procedures**

When by disposition of Act No. 255 or regulations, the Corporation must adjudicate a claim presented by the Cooperative, its governing bodies, committees and executive officers, or any member or depositor of the Cooperative or for violations to Act No. 255, Act No. 114 of August 17, 2001, or the regulations adopted under them, for violations to the general regulations of the Cooperative, the Corporation, at its own initiative or at the request of any of interested parties, will submit the matter to the consideration of an arbitration board composed of three (3) arbitrators, one (1) selected by each party in the controversy and a third selected by common agreement of the first two (2) arbitrators. In the event there are more than two (2) parties in controversy, more additional arbitrators may be designated. In the event the Corporation imposed panel results in an even number of arbitrators, they will designate by common agreement the additional arbitrator to ensure an uneven number of arbitrators. The Corporation will adopt rules to govern the arbitration processes, including, among other things, the eligibility requirements of the arbitrators, the procedural rules to be applied, the corresponding charges and rights to defray the arbitration process expenses and the assumption of costs and expenses by the parties. The arbitration boards will apply the current rules and may not generate interpretations or opinions that involve the adoption of public policy. In order to ensure a correct application of the legal and regulatory rules, the Corporation will provide technical assistance to the arbitration boards. The party affected by the arbitration board decision may request a legal revision of said decision with the First Instance Court where the principal office of the Cooperative is located, within fifteen (15) days following the date the board's decision was notified.

In those cases in which the Corporation determines that the public interest requires a direct adjudication, the regulatory proceedings established by the Corporation in conformity with Act No. 170 of August 12, 1988, as amended, known as the Uniform Administrative Procedure Act of the Commonwealth of Puerto Rico, will be observed.

Article 5.26 – Limitation of Employment

No member of a governing body may be employee of a savings and credit cooperative until at least two (2) have elapsed from stepping down from his position on the board, delegate or committee, whether because of expiration of his or her term or for resignation to the position in the governing body.

Article 5.27 – Right of the Corporation to Dismiss Someone

- a) When the Corporation has based motives to believe that any member or officer of the Board or any member of the other governing bodies or any executive officer or employee of a cooperative has incurred in one of the causes for separation, as established in Article 5.21 of this Act, charges will be pressed in conformity with Article 19 of Act No. 114 of August 17, 2001. The order to show cause may stipulate the provisional removal of functions of the affected person. The administrative process the Corporation begins under this Article will follow strictly the stipulations of the organic law of the Corporation.
- b) Any person permanently separated from a position as a member of the Board or as one of its officers, or as member of any of the other governing bodies or as an executive officer of a cooperative, will be barred from again being elected, designated, named or contracted to occupy any position or job in any other cooperative, except that he or she requests and obtains the approval from the Corporation.
- c) In the event a cooperative is under receivership, liquidation, involuntary merger, sale of assets, cease and desist order or any other governmental intervention that exceeds one (1) year, any person who during the three (3) years prior to the intervention has occupied during at least six (6) months the position of director, supervision committee member or executive officer will be barred from being elected, designate, named or contracted to occupy any position or job in any other cooperative, except that he or she requests and obtains the prior approval of the Corporation. At the time of the intervention of a cooperative by the Corporation, the Corporation will grant the directors, members of the supervision committee and executive officers covered by this subsection the reasonable opportunity to show their diligence in performing their functions and thus obtain the authorization to occupy and position or job in any other cooperative.

Chapter VI – Operational Capital, Loans and Limitations

Article 6.01 Capital

The capital of this Cooperative will consist in the sum of the social capital, indivisible capital, the surplus amount and its capital obligations.

1) **Dividends on Shares:**

At the end of the Cooperative's fiscal period, the Board of Directors will recommend to the Assembly of Delegates the type of distribution of the operational surplus, if any, over the capital in shares. This, based in the funds deposited and not withdrawn in the fiscal period.

Article 6.02 – Indivisible Capital

a) The Cooperative will maintain a reserve of non-distributable capital that will be known as indivisible capital. The fifty percent (50%) of the indivisible capital reserve will be maintained in liquid assets. On December 31 of the year Act No. 255 was approved, the cooperative had to count with a minimum indivisible capital of three percent (3%) of the total of its assets subject to risk. From that date on, the indivisible capital of each cooperative had to reach for the dates mentioned below the following levels regarding the assets subject to risk as defined in subsection (d) of this Article:

- (A) at December 31, 2003, a minimum of four percent (4%) of the total assets subject to risk;
- (B) at December 31, 2004, a minimum of five percent (5%) of the total assets subject to risk;
- (C) at December 31, 2005, a minimum of six percent (6%) of the total assets subject to risk;
- (D) at December 31, 2006, a minimum of seven percent (7%) of the total assets subject to risk;
- (E) at December 31, 2007, a minimum of eight percent (8%) of the total assets subject to risk;

- 1) From January 1, 2008, each cooperative must maintain a minimum indivisible capital of eight percent (8%) of the total of its assets subject to risk. In the case of newly created cooperatives, the Corporation will define through regulation or administrative order the corresponding staggered levels of time frames to attain them. For purposes of this law, the cooperative assets subject to risk will be calculated according to the risk parameters defined in subsection

(d) of this Article. Once the cooperative complies with the minimum requirement stipulated in this Article, it will have its discretion to reduce the contribution it must incorporate to the indivisible capital.

- 2) If the Cooperative complies with the required amounts and has no accumulated losses or will be considered as adequately capitalized and no penalties will be imposed nor subject to understanding memorandums nor to an agreement to continue operating for the sole reason of lack of capitalization. The Corporation will have the authority to require through regulation adopted to such purpose, additional capital to the required percentages in subsection (a) (1) of this Article based on the risk profile of the Cooperative, taking into consideration the types of financial activity it performs and the risk levels they imply.
- 3) In the event the Cooperative does not comply with the required amounts, it will proceed as follows:
 - A. The Corporation, after issuing a formal administrative decision to the effect that the Cooperative does not reach the established minimum indivisible capital, will require from the Cooperative a capitalization plan that reasonably shows the steps the institution will take to correct such difficulties. The capitalization plan will specify, as minimum, the following:
 - i. the specific measures the Cooperative will take to increment its contributions to the indivisible capital reserve. Such measures will include adjustments in the proportion of annual contribution to the indivisible capital reserve as specified in subsection (c) of this Article;
 - ii. the level of indivisible capital the Cooperative seeks to reach for each year covered by the plan;
 - iii. the financial activities the Cooperative will perform and the business volumes it projects for each year covered by the plan;
 - iv. the control level in the growth of Cooperative assets for each year covered by the plan;
 - v. the level of net economies projected for each year covered by the plan; and
 - vi. the financial support the Cooperative will receive, if any, from other cooperative entities of first, second or third degree.

- B. The minimum contents required from a capitalization plan and the time periods to submit and implement it will be specified by the Corporation through regulation. In the event the capitalization plan is not approved or that after approval it be object of substantial noncompliance, the Corporation may consider other regulatory actions. In cases of regulatory actions that affect the continuation of operations or the existence of the cooperative, the imposition of said restrictions must be ratified by the vote of two thirds (2/3) of the Corporation's Board of Directors.
- 4) The following will be considered as elements of the indivisible capital reserve:
- a) the indivisible capital reserve, including the amount the Cooperative may have accumulated until the effective date of Act No. 255, after deducting any accumulated or current loss;
 - b) any capital reserves made by the Cooperative, except the reserve for losses or unrealized profits in marketable securities available for sale, as required by the pronouncement issued by the Financial Accounting Standards Board;
 - c) fifteen percent (15%) of the earnings retained by the Cooperative and not distributed;
 - d) the portion of reserves set up by the cooperative to absorb possible future losses in loans or financings that are not in arrears. In addition, the Corporation may set up through regulation that portion of the reserve established by the Cooperative to absorb possible future losses in loans or financings in arrear that may be used as part of the indivisible capital reserve, for which the corresponding studies will be realized taking into consideration the rules applicable to other financial institutions;
 - e) The capital obligations issued by the Cooperative and those other financial tools authorized by the Corporation specifically for their inclusion as part of the indivisible capital; and
 - f) Other elements that the Corporation establishes through regulation or administrative decision.

- b) If the Cooperative's indivisible capital reserve is lower than eight percent (8%), it will separate and incorporate annually to the indivisible capital twenty-five percent (25%) of its net economies or four percent (4%) of its net income from operations, whichever is higher, until the reserve has reached and maintains eight percent (8%) of its assets subject to risk. If the Cooperative's indivisible capital has reached and maintains eight percent (8%) of its assets subject to risk, it will be at its discretion to reduce up to no lower than five percent (5%), its contribution to incorporate to the indivisible capital.

The Corporation, after issuing a formal administrative decision to the effect that the Cooperative does not reach the required minimum indivisible capital, will require from the Cooperative a capitalization plan that reasonably shows the steps the institution to attain said requirement. Regarding these cooperatives, the Corporation may impose regulatory or administrative restrictions to their operation for lack of capitalization. Such restrictions, as well as the contents of an acceptable capitalization plan and the time frame to submit and implement it will be defined by the Corporation through regulation. In the event the capitalization plan is not approved or that after approval it be object of substantial noncompliance, the Corporation may consider other regulatory actions, including ordering the merger with another cooperative. Any involuntary merger or asset sale transaction and assumption of liabilities (purchase and assumption) will be carried out only with another savings and credit cooperative authorized in Act No. 255.

- c) The Cooperative's total assets subject to risk will be determined by applying the following parameters or risk assessments:

1. The following assets will be considered as non-risk assets, and thus, with assessment of zero percent (0%):

- (i) cash-on-hand in possession of the Cooperative in its offices or in transit;
- (ii) loans, obligations and debt securities, including portions of all of them, issued, insured or guaranteed unconditionally by the Commonwealth of Puerto Rico or its agencies, or by the U.S. Government or its agencies, including banks of the Federal Reserve System, Government National Mortgage Association (GNMA), Veterans Administration (VA), Federal Housing Administration (FHA), Farmers Home Administration (FmHA), Export-Import Bank (Exim Bank), Overseas Private Investment Corporation (OPIC), Commodity Credit Corporation (CCC) and Small Business Administration (SBA);
- (iii) student loans insured under Title IV, Part B of the 1965 Higher Education Act;

- (iv) the portion of members' loans guaranteed with shares, deposits or both that cannot be withdrawn from the Cooperative; and
 - (v) the investment of the cooperative in the Corporation.
2. The following assets will be considered assets subject to risk with assessment of twenty percent (20%):
- (i) bills in collection process. The Corporation will determine by regulation which items may be included under this subsection;
 - (ii) the portion of loans to non-members guaranteed by liquid assets kept in guarantee of the loan, as stipulated in Article 2.03(a)(2) of Act No. 255;
 - (iii) loans, obligations and debt securities, including portions of all of them, issued, insured or guaranteed unconditionally by the Commonwealth of Puerto Rico or its agencies, or by the U.S. Government whose obligations are not explicitly supported by the whole faith and credit of the U.S. Government, including Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Farm Credit System, Federal Home Loan Bank System and Student Loan Marketing Association (SLMA).
 - (iv) deposits, loans, obligations and debt securities, including portions of them that are issued, insured or guaranteed by U.S. and Puerto Rico deposit institutions, including the Puerto Rico Cooperative Bank. Shares of for-profit institution are excluded;
 - (v) the historic cost of real estate property or the value of the appraisal as certified by duly qualified appraiser, whichever is lower, that is being used or is projected to be used as offices, branches, service center, parking area or other facilities, net of any debt directly guaranteed through a mortgage lien constituted and perfected over such real estate; and
 - (vi) the prepaid insurances corresponding to the risks of the institution.
3. All other assets not recognized in any of the previous categories will be considered assets with assessment of one hundred percent (100%).
4. The Corporation is authorized to, through regulation or administrative decision, add to the categories mentioned all those other assets that merit a risk assessment lower than one hundred percent (100%).

- d) By decision of its Board of Directors, the Cooperative may accelerate the accumulation of indivisible capital by contributing to it an amount in excess of what this Article requires.

Article 6.3 – Granting of Loans

(a) **Loan Policies**

The cooperatives will grant loans in accordance with the loan policies established by their boards, which may not be incompatible with the practices used in the management of financial institutions, recognized as healthy practices and in protection of the public interest. Such loan policies will include:

- (1) adequate and objective processes of evaluation and measurement of credit risk paying attention to the special nature of the different types of financing;
- (2) healthy evaluation and credit granting practices generally accepted in the financial industry, with the possibility of providing special but prudent rules to make viable for people with limited resources to have access to credit;
- (3) price policies or interest rates that recognize different levels of credit risk;
- (4) rules regarding acceptance of collaterals and the documentation and procedures for the due constitution and perfection of the applicable liens; and
- (5) credit evaluation policies and procedures especially adopted for commercial financing and the designation of credit officers duly trained for that function.

Irrespective of the guarantees and collaterals offered, no cooperative will grant a loan to any person unless he or she validates and documents the existence of trusted sources for its repayment as agreed, while those sources could be sufficient assets in deposits in the Cooperative and retained in it, including in the case of non-members liquid assets as stipulated in Article 2.03 of this law.

The loan policies must be periodically reviewed to ensure their adequacy in light of changes in the market, trends in portfolio morosity, the quality of the institution's assets and the need to maintain a competitive position.

(b) Loan Documentation

Every loan application will present necessary and pertinent information for its evaluation. Similarly, it will include, without it being understood as a limitation, sufficient data that make it easier to verify the identity, location, physical address, credit history, place of operation, income sources and employment or job of the applicant and the guarantors or cosigners, as well as the guarantees offered.

Loans granted by cooperatives will remain evidenced by a legal promissory note and by all other documents the cooperative requires, which must comply with the requirements and formalities the Corporation demands through regulation. Signers of the promissory notes, no matter if they are or not members of the cooperative, will be considered for all legal matters as principal and jointly liable, and in the collection efforts, the cooperative could proceed against any of them at its discretion, even by legal means. Any money amount a member or non-member owes to the cooperative for any concept, including the payment or fees for service, overdraft or any other concept, will be considered a recognized debt and the Cooperative will recover it through any court with competent jurisdiction and will be liable for the for the statutory lien stipulated in subsection (c) of this Article.

(c) Statutory lien and non-sizable nature of assets

A lien will be placed in capital shares, deposits and other assets in possession of any debtor or guarantor in the cooperative in accordance with the law and without the need of any other formality, document, administrative procedure or registry up to the limit of all debts contracted or guaranteed with said cooperative, while these debts subsist in whole or in part. It is stipulated expressly that regarding the debts contracted with the cooperative, the lien over all capital shares, deposits and other assets possessed by the debtors in the cooperative is excepted from the requirements for the constitution of real estate liens, excepted from any of the requirements for the execution of said liens stipulated in any other law, including Act No. 208 of August 17, 1995, also known as the Commercial Transactions Act, and the 1930 Puerto Rico civil code as amended. Also recognized is the expressed authority of the cooperative to, at its full and exclusive discretion and selection, allocate the shares, deposits and other assets of the debtors or guarantors against any debts, commitments and obligations they may maintain with the Cooperative.

In addition, it is stipulated that such capital shares, deposits and other assets will not be subject to embargo to satisfy a different debt to that contracted with the Cooperative up to the amount of the obligation contracted with the Cooperative at the time of the sentence.

(d) Granting of credit to members of governing bodies and executive officers

Subject to the Corporation's regulations, the Board of each cooperative will establish the institutional policy that will govern regarding the form, term and conditions for granting loans to members of its governing bodies, the executive officers and employees. Similarly, it will establish the procedures for the control and auditing of the loans granted to them.

Such institutional policy as well as the procedures for its implementation must establish adequate controls so that the members of the governing bodies, officers and employees do not participate in the approval process, control and auditing of their own loans, and do not receive privileges given the position they hold in the cooperative and will set sanctions to be imposed for any violation to said institutional policy. The institutional policy may authorize reasonable discounts or concession for the cooperative employees, provided they are consubstantial with similar programs in other financial institutions.

(e) The Corporation will have the authority to define through regulation maximum amounts of loans that may be granted to one sole borrower. Such limitations shall be comparable to those applied to depositary institutions operating in Puerto Rico.

Article 6.03-A – Reception of Payments

In order to have the time to process payments, prepare balance sheets, and make journal entries necessary to determine the position for the day, a cooperative may set a time that is not 2:00 p.m. as the deadline for processing payments and enter the data in its books. The cooperative is under the obligation to date and credit every transaction that affects the client with the date it was done, including those for similar services offered by the cooperative.

A money deposit or payment received any day after the close of business for the day may be treated as received at the beginning of the next business day, only for the institution's internal purposes, never for documentation of evidence of the transaction, of the date of a transaction was adjudicated to an account or a debt, nor for imposing late charges.

Article 6.04 Participation in Surpluses

The Board of Directors make arrangements for the distribution of net surpluses accumulated by the cooperative at the end of each year, after amortizing accumulated losses, if any, followed by the contributions to the indivisible reserve as required by this law and the provision for possible loan losses, the mandatory and voluntary reserves, as stipulated in Article 6.07 of Act No. 255. The distribution of surpluses may not proceed while the Cooperative has accumulated losses. In those cases in which the Cooperative shows to have satisfactorily taken care of the causes that prompted the accumulated losses and that shows a sustained improvement in its managerial or operational financial condition, the Corporation may authorize differing the accumulated loss and allow the distribution of a part of the surpluses.

Surpluses may be distributed based on computed reimbursement or devolution, taking into consideration the sponsorship of collected interests, or a combination of said reimbursement together with the payment of dividends over shares paid and not withdrawn at the of the natural year in the proportions and amounts the Board of Directors determines. Every surplus distribution will be made through credit to shares, never in cash.

Shares that at the end of the Cooperative's operations year have been paid in their totality will receive in payment of dividends a proportional part of the surplus, which will be calculated from the first day of the month following the date in which the payment is made. The reimbursement or devolution passed on sponsorship of interests collected will be made in proportion to the interests paid over the loans during the year.

Article 6.05 – Withdrawal of Deposits and Shares

When a Cooperative member voluntarily retires or is expelled from it, he or she will be paid, after discounting any debt with the Cooperative (including debts contracted as solidary debtor, or guarantor, regardless of whether any personal benefit from the referred loan) was received or not, the amount of money that such member had paid for shares and deposits, plus the amounts for dividends, sponsorship and interests duly earned and credited up to the time of retirement or expulsion. Such payment will be made within thirty (30) days following the retirement or expulsion of the member.

The Cooperative may require that the notification to withdraw deposits be made with thirty (30) days anticipation and that the notification for withdrawal of shares is made with ninety (90) days of anticipation.

Article 6.06 – Shares Withdrawal or Transfer by Members of the Board and the Committees

Members of the Board and its officers, members of the committees, executive officers and members of a cooperative who directly participate in its management, may not withdraw or transfer their shares while performing their positions or functions in the cooperative. Any withdrawal or transfer of shares made by those people in the six (6) months prior to the date the Corporation determines that the solvency or liquidity of the cooperative is in danger or at the date in which the Corporation decides to use any mechanism authorized by law to safeguard its stake, whichever comes first. In that case, such people will continue to respond to the cooperative creditors or to the Corporation or to any other insurer for the value of the shares that have been retired and transferred.

Nevertheless, in emergency or extreme necessity cases, members of the Board and its officers, members of the committees, executive officers and members cooperative who directly participate in its management, may retire or transfer their shares, prior authorization of the Board of Directors. In such case, Board members and its officers, committee members, executive officers and the cooperative members who directly participate in its management, may continue responding to the Cooperative creditors, to the Corporation or to any other insurer, in conformity with what was previously established.

Article 6.07 – Provision for Possible Loan Losses (Requirement for Liquidity, Reserve for Contingencies and Voluntary Reserves)

a) Provision for Possible Loan Losses

The Cooperative will set up a provision for possible loan losses, with a charge to operational income, using a formula based in the real experience of loan losses as set through regulation by the Cooperative.

b) Minimum Liquidity Requirement

The Cooperative will always maintain a required minimum amount of liquid assets that will be computed in proportion to the composition and maturity of its deposits and certificates. The Corporation will adopt regulations to determine the percentage required and the base for the its computation will not be lower than fifteen percent (15%) of the sum total of obligations in deposits and certificates, as they are in the books the last day of the month.

This minimum liquidity requirement does not imply an additional reserve against the economies of the Cooperative.

c) Contingency Reserve

The Corporation may demand the Cooperative to establish and maintain, with a charge to its net economy, a contingency reserve to protect it against any risk or activity of an extraordinary nature reasonably determinable whose adverse economic consequences could result in higher losses than the accumulated or available indivisible capital.

Similarly, it could authorize the setting up this reserve at the request of the Cooperative's Board.

d) Voluntary Reserves

The Cooperative's Board La Junta de la Cooperativa can stipulate the periodic contributions to the voluntary reserves whose creation has been previously approved by the assembly of members. Voluntary reserves may be established for any legitimate purposes that advance the interests of the cooperative or of the cooperative movement, including contingencies, investment in subsidiaries 100% owned or financial enterprises of the second degree and/or in cooperative enterprises, institutional development and growth or for education in cooperative matters and technical and professional training.

Article 6.08 – Tax Exemption

a) **General Rule** – except as stipulated in subsection (b) of this Article

- 1) Cooperatives, their subsidiaries or affiliates, as well as the income from all their activities or operations, all their assets, their capitals, their reserves and surpluses and those of their subsidiaries or affiliates will be exempt from all type of income, property, excise or patent taxes, or any other tax imposed or that could later be imposed by the Commonwealth of Puerto Rico or any of its political subdivisions, except the Sale and Use Tax (IVU) established in Sections 4020.01 and 4020.02, the tax authorized by Section 6080.14, the taxes established in Sections 4210.01, 4210.02 and 4210.03, the Value Added Tax established in Section 4120.01 and the duties imposed under Chapter 2, of Subtitle C of Act 1–2011, as amended.
- 2) All shares and securities issued by cooperatives and any of their subsidiaries or affiliates will be exempt, both in their total value as well as in the dividends or interests paid under them, from all type of income, property, excise or patent taxes, or any other tax imposed or that could later be imposed by the Commonwealth of Puerto Rico or any of its political subdivisions.

- 3) Cooperatives and their subsidiaries or affiliates will be exempt from the payment of state or municipal rights, duties or excise taxes, including the payment of fees for licenses, patents, permits and registrations, from the payment of charges, rights, stamps or internal revenue receipts related to the granting of all type of public and private documents, from the payment of charges, rights, stamps or internal revenue receipts related to their registry in the Property Registry or any other public registry or governmental office and from the payment of charges, rights, stamps or internal revenue receipts related to the issuance of certifications for said registries or for any other governmental office. Cooperatives and their subsidiaries or affiliates will be exempt, moreover, from the payment of charges, rights, stamps or internal revenue receipts, duties and fees required in the General Court of Justice of Puerto Rico or for any other agency, instrumentality, public corporation of the Commonwealth of Puerto Rico or any of its political subdivision.
 - 4) The exemptions listed under this Article will apply to the cooperative subsidiaries or affiliates while said subsidiaries or affiliates are subject to the control of one or more cooperatives.
- b) Tax years beginning after December 31, 2008, and before January 1, 2012. — Regardless of what is expressed in Subtitle A of the 1994 Puerto Rico Internal Revenue Code, as amended, and this Act, during each of the tax years beginning after December 31, 2008, and before January 1, 2012, or up to the time the revenue determined by Section 15 of Act No. 37 of July 10, 2009, the Savings and Credit Cooperatives covered under this Act, its subsidiaries and affiliates will be subject to a special tax of five percent (5%) over the amount of their computed net economies, in conformity with the generally accepted accounting principles, putting aside the stipulations of Section 1101 of the 1994 Puerto Rico Internal Revenue Code, as amended, but only as long as those net economies exceed two hundred fifty thousand dollars (\$250,000). Such contribution will be notified, paid and collected in in the form and way specified by the Treasury Secretary of Puerto Rico through regulation, circular letter or other general administrative decision or communication.

Article 6.09 – Unclaimed Accounts

The amounts of funds and other liquid assets held by a cooperative that have not been claimed or have not been the object of any transaction during five (5) consecutive years, except those amounts from share accounts, will be destined to a social capital reserve of the cooperative or to its indivisible capital entry, at the option of the cooperative, after complying with the requirement of notifying the Corporation. For the purpose of this Article, the imposition of service charges nor the payment of interests or dividends will be considered a transaction or activity in the account. The term of five (5) years will be counted from the date of the last transaction, when dealing with instruments that have

no maturity date, the term of five (5) years beginning to be counted again from its maturity date.

On or before sixty (60) days after the close of the fiscal year of each cooperative, it is under the obligation of notifying the owners of inactive accounts that they may be transferred. This will be done by publishing a list in a visible place in cooperative branches and service offices for a term of ninety (90) consecutive days. Simultaneously, an ad will be published in a general circulation newspaper in Puerto Rico, with the title "Notice of Unclaimed Money and Other Liquid Assets in Possession of the Cooperativa de Ahorro y Crédito Rafael Carrión, Jr". Expenses incurred by the Cooperative in relation to the publication of the ad will be deducted proportionally from the balance of each unclaimed account.

Such ad will show, in alphabetical order, the names of the people who, in conformity with the Cooperative registries, have the right to claim any money amount and other liquid assets in possession of the Cooperative that have not been claimed to the Cooperative or that have not been the object of any transaction during the referred period of five (5) years, the last known address of each of these persons, and the respective amounts to which they have a right.

During said term of ninety (90) days, the list will be available for review by every member and the general public. Any person who, during the ninety (90) day period previously mentioned, presents irrefutable proof of ownership of one or more of the accounts identified in the list will have the right to have them retired from the list and that they not be geared to be transferred to the capital reserves.

Within the thirty (30) day term after the first ninety (90) day period expressed here, the Cooperative will submit to the Corporation a copy of the ad published in the Cooperative and the copy of the ad published in a general circulation newspaper. This filing will constitute the required notification to the Corporation for purposes of this Act.

After the Corporation has been notified, the Cooperative may proceed with the transfer of the unclaimed assets to its social capital and/or its indivisible capital entry.

After the transfer of an account or other assets from an account or other liquid assets to the capital reserves, claims will only be admitted if presented within five (5) years from the transfer. In such cases, the Cooperative may impose administrative charges corresponding to the procedures of investigating and analyzing the claim.

Every cooperative must include, as part of the documents to open an account, a flyer containing a transcript of this Article. In addition, it will maintain in the member's file evidence of receiving that flyer.

In conformity with these stipulations, the cooperatives, in their shares and deposit accounts and their reserves will be exempt from the stipulations of Act No. 36 of July 28, 1989, as amended, known as the "Abandoned or Unclaimed Funds and Other Liquid Assets Act".

Use of the Social Capital Reserve:

This reserve will be used for social-educational purposes. Among them:

- a) Sponsor activities, such as seminars, workshops, conferences, camps and others for the promotion and development of the cooperative movement in Puerto Rico, both at the youth and the adult levels.
- b) Promote study-experience trips through scholarships to centers for the development of cooperative activism.
- c) Cooperate in cooperative promotion and education assisting in the production of educational materials and resources, such as manuals, brochures, flyers, posters, educational newspapers and others.
- d) Donations to non-profit institutions, preferably local, with the authorization of the Board of Directors. The Board of Directors will name a committee to pass judgement, investigate and recommend the approval of the requested donation.
- e) Any other use whose purpose is to strengthen the cooperative movement and two of its base sectors.

Article 6.10 – Contribution to Education

The Cooperative is under the obligation to annually set aside no less than one tenth percent (0.1%) of the total volume of business for educational purposes and integration of the cooperative movement in Puerto Rico. Within the three (3) months following the close of its operations each economic year, such cooperatives will determine the amount resulting from said computation, up to a maximum of four thousand dollars (\$4,000). If the total business volume exceeds four million dollars (\$4,000,000) annually, it must contribute an additional amount of five percent (5%) of its annual net surplus up to an additional maximum of six thousand dollars (\$6,000). This fund will be contributed to the Cooperative League and will be used by it for such purposes as education, integration and consulting services. For the purpose of this Article, the total business volume will be computed adding the total of loans granted by the Cooperative at the close of operations to the total interest income in savings and investments at that date.

Within the month following the close of operations of each economic year of the cooperative, it must have deposited in the Cooperatives League the total of the corresponding sums it must pay for the closed year. The deposits will be made quarterly, estimating each payment to be one quart part of what corresponded from the previous year. At the close of the year, the pertinent adjustments will be made and in the case of an excess of payment, the estimated payment will be credited to the next first quarter.

Chapter VII – Institutional Changes

Article 7.01 – Limitation to Merge or Consolidate

No cooperative can merge or consolidate with another cooperative, except in the way stipulated in Articles 7.02 and 8.07 of this Act.

Cooperatives cannot sell their assets nor purchase obligations or debts insurable by the Corporation, except in the normal course of their business, previous authorization of the Corporation and in accordance with the established through regulation.

Article 7.02 – Voluntary Merger or Consolidation

Two or more cooperatives organized in conformity with this Act may merge or consolidate voluntarily through the approval of the assembly of members or delegates, as applicable, prior to the authorization of the Corporation, and in conformity with the procedure established through regulation or administrative decision.

When one or more cooperatives merge, one of them will yield the name, assets and other assets and rights to the other cooperative, which remain in existence as a recognized legal entity. When two or more cooperatives consolidate themselves, they will form a new cooperative entity, different from what existed before.

There cannot be any voluntary merger or consolidation transaction, sale of assets and/or liabilities, nor any other transaction or similar agreement with institutions that are not cooperatives.

Article 7.03 – Voluntary Dissolution of Cooperatives

Any cooperative whose dissolution does not require disbursements by the Corporation because of insurance of shares and deposits, may voluntarily dissolve through the approval of the general assembly of members or general assembly of delegates, as corresponding, following the procedure thus established by the Corporation. When the dissolution requires disbursement by the Corporation, the procedure established in Article 8.11 of this Act will be followed.

Chapter VIII – Administrative Stipulations, Auditing

Article 8.01 – Fiscal Year of the Cooperatives

The fiscal year of every cooperative will be established in the incorporation clauses and in its general regulations.

Article 8.02 – Notifications and Convocations

In every situation in which the cooperative notifies or convenes its members, said notification or convocation may be made through:

- a) Mailed to the address in the registries of the cooperative; or
- b) Published in a general circulation newspaper together with the placing of posters visible in cooperative branches and service offices.

In addition, the cooperative may use electronic methods or broadcasting as additional mechanisms supplemental to those previously described.

Article 8.03 – Reports

Cooperatives will submit all those reports required by the Corporation with the frequency, the details and in the way that through order or regulation requires the Corporation. The Board Chairman and the Secretary will certify that the annual financial statements of the cooperative are correct, in accordance with their best knowledge and belief and that they were examined and discussed by the Board. The statements will be filed with the Corporation not later than one hundred twenty (120) days following the closing of the cooperative's fiscal year.

Every cooperative will keep a detailed accounting of its operations and activities based on the generally accepted public accounting principles, except in the cases in which the Act stipulates they are kept in some other way. Moreover, the Corporation may require that cooperatives submit reports about the internal controls validated by certified public accountants.

Article 8.04 – Adjudicating Procedures

When by stipulation of this Act or of the regulations the Corporation must adjudicate a claim presented by any cooperative, its governing bodies, committees and executive officers or by any member or depositor of a cooperative for infringement of this Act, Act No. 114 of August 17, 2001, or of the regulations adopted under them, or for infringements to the general regulations of the cooperative, the Corporation, at its own initiative or at the

request of any of the parties, will submit the matter to the consideration of a panel of arbitrators composed by three (3) arbitrators, one (1) selected by each party in the controversy and the third selected by common agreement by the first two (2) arbitrators. In the event there are more than two (2) parties in controversy, other additional arbitrators may be designated. In case the panel results in an even number of arbitrators, they will designate by common agreement an additional arbitrator to ensure an uneven number.

The Corporation will adopt rules to govern the arbitration processes, including, among other things, the eligibility requirements of the arbitrators, the procedural rules to be applied, the corresponding charges and rights to cover the expenses of the arbitration process and the assumption of legal costs and expenses by the parties. The arbitration panels will apply the current rules and may not generate interpretations or opinions that imply the adoption of public policy. In order to ensure a correct application of the legal and regulatory rules, the Corporation will provide technical assistance to the arbitration panels. The party affected by the arbitration panel's decision may request the legal revision of said decision by the First Instance Court in which the cooperative's headquarters is located, within fifteen (15) days following the notification date of the panel's decision.

In those cases in which the Corporation determines that the public interest requires a direct adjudication, the regulatory procedures established by the Corporation in conformity with Act No. 170 of August 12, 1988, as amended, known as the Uniform Administrative Procedure Act of the Commonwealth of Puerto Rico, will be followed.

Article 8.05 – Inspections, Auditors and Exams

Every cooperative covered by this Act must submit every year to the Corporation, the Cooperative Promotion Administration and the Puerto Rico League of Cooperatives audited financial statements within one hundred twenty (120) days following the end of operations of its fiscal year. The audited financial statements of the cooperatives submitted to the entities previously mentioned will be available to the general public and may be copied through the payment of rights. In addition, the cooperative will submit to the Corporation, in an equal time period, a copy of the letter to management issued by the external auditors.

Article 8.06 – Public Policy for Strengthening and Rehabilitating Cooperatives

It is public policy of the Commonwealth of Puerto Rico to strengthen and promote the development of every cooperative. In conformity with it, the Corporation will intent to identify in an opportune way those conditions of operational, financial or managerial weaknesses that need corrective action. Once identified, the Corporation will ensure that the cooperative implements the necessary corrective measures that promote its strengthening and development, for which it could use the administrative and regulatory

measures stipulated in Act No. 114 of August 17, 2001, this act and the applicable special laws.

It will be the primary responsibility of the cooperative's governing bodies or managerial the implementation of the corrective measures set forth by the Corporation without diminishing the authority of the Corporation to present charges and dismiss officer, directors and employees under Article 19 of Act No. 114 of August 17, 2001, and of Article 5.24 of this Act. In cases that require protecting members and depositors, continuity or the integrity of the cooperative operation or the protection of the insurance fund of the Corporation, the latter may adopt the necessary regulatory measures provided in Act No. 114 of August 17, 2001, this Act and the applicable special laws, leading to the rehabilitation and strengthening of the cooperative.

Before proceeding to decree a merger, consolidation, sale of assets and assumption of liabilities or the dissolution and liquidation of a cooperative, it is required that the Corporation, through the affirmative vote of two thirds (2/3) of its Board of Directors make an express determination that there are no possibilities of rehabilitating the cooperative.

Article 8.07 – Mandatory Merger or Consolidation

The Corporation can order the mandatory merger or consolidation of a cooperative when the Corporation, through the affirmative vote of two thirds (2/3) of its Board of Directors, makes an express determination that there are no possibilities of rehabilitating the cooperative, and the merger or consolidation the shares or deposits insurance are approved. The cooperative proposed to be the recipient is not under the obligation to accept the merger.

No merger, consolidation, sale of assets or liabilities nor any other transaction or similar agreement may be made with institutions that are not cooperatives.

Article 8.08 – Management under Receivership

- (a) (1) The Corporation can order that a cooperative be placed under emergency management or under receivership when, an audit, investigation, examination or inspection shows that the cooperative exhibits the situations expressed in Act No. 114 of August 17, 2001.
- (2) The Corporation must hold a hearing before issuing an order to place a cooperative under receivership management. However, the Corporation may issue a provisional order decreeing the receivership without the need of a hearing, when, at its judgement, the situation of the cooperative is of such nature that it is causing or may cause irreparable damage to its interests, to those of members or of people with interests or deposits in it. When the

Corporation issues a provisional receivership order, it must hold an administrative hearing within ten (10) days following the date of its notification, to determine whether to make it permanent or revokes it.

- (3) When the Corporation orders the emergency management or receivership of an insured cooperative, the Corporation will act as interim administrator or trustee, assuming the powers and functions of management, the governing bodies and operating the institution in conformity with the regulations adopted for that purpose. The Corporation will perform its functions as managing trustee through its officers or through a contracted third party. In any event, the officer or agent representing the Corporation shall be a person with integrity and unquestionable moral reputation with the managerial, financial, accounting and business knowledge that equips him or her well to perform an interim managing or rehabilitation process in the shortest term possible.
 - (4) The emergency management shall not exceed sixty (60) days, whose term could be extended by the Corporation's Board of Directors. In case the emergency management exceeds one hundred eighty (180) days, the intervention in the cooperative by the Corporation will be considered as a receivership management, subject to the disposition in subsection (b) of this Article.
- (b)(1) Every receivership will have as its purpose and goal the immediate protection and stability of the cooperative and the prompt installation of new governing and managerial bodies. During the receivership, the Corporation will take the immediate required measures to safeguard the integrity and stability of the institution. The officer or agent representing the Corporation, who is designated as agent of the trustee, will submit to the Corporation's Board of Directors a work plan that will include, as minimum, the following:
- (i) extraordinary measures taken by the trustee's agent;
 - (ii) pending measures to be implemented;
 - (iii) designation process of new governing and managerial bodies;
 - (iv) financial rehabilitation plan;
 - (v) proposal for operations agreement or understanding memorandum; and

- (vi) financial or technical support the cooperative will receive from other cooperative entities of the first, second or third degree.
- (2) The work plan of the trustee's agent will be presented to the Corporation's Board within one hundred twenty (120) days, after the receivership was decreed. If there are extraordinary circumstances, the Corporation's Board could be prolonged for an additional period of sixty (60) days. The work plan will not consider contracting or the imposition or assumption of obligations or extraordinary expenses that do not correspond to the ordinary course of cooperative's business, except if they are approved by two thirds (2/3) of the Corporation's Board of Directors or that are subject to ratification by a majority of the new board of directors of the cooperative to be designated, as disposed later further down. Once approved by the Corporation's Board, the trustee's agent will proceed with its implementation.
- (3) The designation of new governing bodies must be made not later than one hundred eighty (180) after the approval of the work plan. The designation of new governing bodies will be made through the celebration of an extraordinary assembly of members or delegates, as corresponding, convened and directed by the Corporation. The election of the new members of the governing bodies will provide for the staggered terms in conformity with what this Act requires. The new governing bodies will assume their functions thirty (30) days after their selection. During that period, the new governing bodies will receive from the Corporation all the information related to the financial rehabilitation plan and the operations agreement or understanding memorandum that will govern the functioning of the cooperative. From that date on, the receivership will be considered concluded.

Article 8.09 – Suspension or Revocation of Permits and Cancellation of Certificate

The Corporation can temporarily suspend or revoke permanently the permit to operate of any cooperative and require the Secretary of State to cancel the charter when:

- a) the total number of members of a cooperative drops to fewer than double of the members of the election bodies;
- b) the permit to operate as a cooperative was obtained through fraud or error;
- c) the cooperative ceases to function and operate;
- d) it is proved to the satisfaction of the Corporation that the cooperative is operating with an illegal purpose or in violation of the stipulations of this Act or the regulations adopted under it, after being duly notified about it by the Corporation;
- e) the cooperative expressly so requests from the Corporation and this considers it convenient after obtaining the necessary evidence in the way it determines;

- f) refuses to file the certified statements about the total of shares and deposits as required by the Corporation;
- g) refuses to pay the insurance premiums, the capital shares or the special premiums the Corporation requires through its laws and regulations; or
- h) refuses to correct any error or omission in the certified statements as required by the Corporation or refuses to pay the sums owed by concept of annual or special premiums, charges and interests, or refuses to deposit in the Corporation the capital required by law or to pay any administrative fine imposed.

Prior to issuing an order in conformity with the dispositions in this Article, the Corporation will take the adequate measures to protect the interests of the cooperative members and of the insurance fund of the Corporation. When the Corporation confirms the existence of any of the causes previously established, it will notify the cooperative Board what it is all about, advising its intention of temporarily suspend or permanently revoke the cooperative's operation permit. In said notification, the basis for its determination will be mentioned.

In the cases under subsections (a), (b), (c) or (d) of this Article, the Corporation will set a term of not fewer than twenty (20) days for the cooperative Board to evaluate the charges and submit a written explanation of the basis why it understands the permit to operate as a cooperative entity should not be suspended or revoked. The Corporation will consider the fundamentals presented within the next thirty (30) days following the date of reception and, when it understands that the charges are correctable, it can grant a term for the cooperative to correct them, establishing how it must conduct its operations during that term. When, at the judgement of the Corporation, the fundamentals presented by the Board are not sufficient, the Corporation will permanently revoke the cooperative's operation permit and will request the Secretary of State to cancel the charter.

When a cooperative's charter is canceled permanently, the Corporation will notify all the members through the publication of two (2) notices in at least two (2) dailies, within the two (2) weeks following the charter cancellation date or in writing to the last known address. Cooperative whose charter is canceled permanently will cease to participate in all the privileges it had as cooperative entity from the date of publication of the announcements as required in this Article. This stipulation will not affect the existence of the assets and liabilities of the cooperative, which will maintain all their force and vigor as if it were continuing to enjoy its authorization to operate as a cooperative entity until all are duly liquidated by the Corporation. Neither will it deprive the members of the cooperative of the guarantees provided by the insurance of the shares and deposits of the Corporation.

Article 8.10 – Cause for the Dissolution of Cooperatives

The Corporation can order the dissolution of a cooperative when:

- (a) is in danger of economic insolvency;
- (b) it is verified that the real value of the shares has been reduced in more than five percent (5%) of its book value, following an economic study to that effect;
- (c) ceases to comply with the necessary requirements to qualify for the shares and deposits insurance of the Corporation; and
- (d) ceases to pay to the Corporation the regular or special premiums or to deposit in it the capital contribution required by law.

Before proceeding to decree the dissolution of a cooperative, it is required that the Corporation, through the affirmative vote of two thirds (2/3) of its Board of Directors, make an express determination that there are no possibilities for the rehabilitation of the cooperative.

Article 8.11 – Procedure for the Orderly Dissolution by the Corporation

The following procedure will guide the cooperative dissolution process:

- (a) **Liquidating trustee** – When the Corporation orders the dissolution of an insured cooperative, it will serve as liquidating trustee through officers of the own Corporation or through a contracted third party. In any event, the officer or agent representing the Corporation shall be a person with integrity and unquestionable moral reputation with the managerial, financial, accounting and business knowledge that equips him or her well to perform a liquidation process that maximizes the yield of the liquidation process. Every designation of an agent in representation of the Corporation for liquidation purposes will be evaluated by the Corporation's Board of Directors.
- (b) **Notice of dissolution** – The Corporation will notify the dissolution of the cooperative through the publication of an ad in at least one (1) general circulation newspaper.
- (c) **Cooperative assets** – During the liquidation process, the liquidating trustee will convert into money the assets of the cooperative being liquidated and will begin claims that legally proceed, will pay the debts in conformity with the procedure established in subsection (e) of this Article and will distribute the surplus of said assets, if any, in the corresponding way. Moreover, he or she will notify the dissolution of the cooperative to the creditors known at the time the dissolution notice is published.

- (d) **Claims and annulment actions** – Any member or person with a claim against a cooperative in the liquidation process must present it to the liquidating trustee within ninety (90) days following the date of publication of the liquidation notice. Similarly, any person who intends to initiate a legal action with the purpose of preventing or annulling the liquidation procedure of a cooperative must present the corresponding action at a First Instance Court of his or her place of residence within thirty (30) days following the publication date of the dissolution notice. The petitioner will notify such action to the Corporation, with copy of his or her annulment petition.
- (e) **Order to carry out the liquidation and distribution of assets** – In every dissolution case of a cooperative, its assets will be liquidated and distributed among the following categories or payments or creditors in the priority order as indicated below and after the term set in this Act for the presentation of all claims:
- 1) expenses incurred in the liquidation process;
 - 2) insured shares and deposits;
 - 3) repayment to the Corporation for the amounts paid to the members and insured depositors; and
 - 4) obligations and deposits of members, depositors and non-insured creditors.

When, after paying in its totality a precedent category, the remaining funds are not sufficient to pay in its totality the creditors of the next category, that available amount will be prorated among the creditors of the category that should be paid. The payment of insured accounts must be made as soon as feasible.

- (f) **Right to subrogation** – Once the liquidation of an insured cooperative has been decreed, the Corporation will subrogate in the rights of members and depositors against said cooperative for the amount paid to them or the rights the members, depositors or the cooperative itself against the members of the governing bodies or executive officers for any violations in their fiduciary duties or for their negligent or malicious acts that have resulted in losses to the cooperative or to the Corporation.

The Corporation will retain the amount that must be paid to cooperative members and depositors, the necessary amounts to respond for the payment of any obligation, that may not be the object of compensation, that the member or deposition has with the cooperative.

The Corporation, in its role as liquidator of an insured cooperative, will record in the Corporation's account the amount of the assets converted into funds that it correspondingly receives by the fact of having subrogated itself in the claims of the cooperative members and depositors. After all the assets have been converted into funds and the payments described in subsection (e) of this Article, any remaining amount will be distributed among the members.

- (g) **Liquidating term and final report** – The liquidating trustee must conclude all the dissolution process within the term stipulated with the Corporation. As soon as the liquidating trustee concludes its duties and responsibilities, he or she will render a final report to the Corporation, which must be sworn before a public notary and said report must be delivered to the Corporation in original and three (3) copies.
- (h) **Unclaimed participations** – In cases in which the people with the right to receive a participation of the liquidation cannot be found, or when they have not claimed their right, the Corporation will retain the corresponding amounts setting up the necessary reserves for a period that will not exceed five (5) years counted from the notification of liquidation as stipulated in Article 8.11(b) of this Act, or of ninety (90) days counted from the delivery of the liquidating trustee's final report, whichever comes first.
- (i) **Certificate of dissolution** – As soon as the Corporation approves the final report from the liquidating trustee, the Secretary of State of Puerto Rico will be notified and will proceed to register it and to issue the certificate of dissolution of the cooperative. The Corporation, for its part, will cancel the cooperative's permit to function as such.

The Corporation will act as the custodian of the cooperative's books and documents it considers pertinent for a period of not less than three (3) years, from the date of the cancellation of the charter.

Chapter IX – Prohibitions and Penalties

Access to the Books

All accounting books, Minute Books and other cooperative documents must be in the cooperative office, at the disposition of the Directors, members of the Supervision Committee, of the Credit Committee, of the Delegates, of the Members and of the COSSEC Office.

Filing of Documents

Copy of the organizational documents of this Cooperative and of the Regulations and their amendments, must be file securely. The result of all these deliberations, votes and elections in all the assemblies and meetings of members and directors, must be recorded in the Minute Books of this Cooperative. The minutes of all assemblies and meetings of the members of the Board of Directors, officers that preside them and by people who act as secretaries in those assemblies and meetings must likewise be filed.

Confidential Character of the Transactions

All information regarding the transactions of Cooperative members will be saved confidentially by the directors, committee members and employees.

Article 9.01 – Exclusive Use of the Cooperativa de Ahorro y Crédito Name

- a) It is prohibited to any natural or legal person that is not an organized and registered society in conformity with the stipulations of this Act, the use or identification under the name "Cooperativa de Ahorro y Crédito". It is further prohibited to any natural or legal person that is not a recognized cooperative entity to use as name, commercial name, brand or to designate itself or its products, goods or service the term "cooperative" or "COOP". For the purposes of this Article, the following will be considered as a recognized cooperative entity exempt from this restriction:
 - 1. the Puerto Rico Cooperatives League;
 - 2. every cooperative insurer duly organized and authorized under Chapter 34 of Act No. 77 of June 19, 1957, as amended, known as the Puerto Rico Insurance Code;
 - 3. the Cooperative Bank of Puerto Rico;
 - 4. every entity organized and registered in accordance with the stipulations of Act No. 50 of August 4, 1994, known as the General Act of Cooperative Societies of Puerto Rico"; and
 - 5. every society organized and registered in accordance with the stipulations of this Act, including non-profit corporations controlled one hundred percent (100%) by them and the subsidiaries, affiliates and cooperative enterprises considered in Article 2.06 of this Act.
- b) Any person who violates the stipulations of this Article will incur in a felony and if convicted will be sanctioned with a penalty of imprisonment for a fixed term or one (1) year or a maximum fine of one thousand dollars (\$1,000 or both penalties at the discretion of the court.

Article 9.02 – Restriction in Granting Loans to For-Profit Entities

The Cooperative cannot grant loans to legal persons, corporations, private societies, associations or organizations that operate for profit, except in the case of business loans to small and medium businesspeople who are controlled by natural persons who are members of the Cooperative or in cases of projects, economic sectors or high-interest public activities with the potential of generating new jobs. The Corporation may stipulate through administrative decision or through regulations the eligibility of small and medium merchants, loans. Projects, economic sectors or activities in conformity with this Article. The Cooperative may grant and offer these entities all those services allowed by Act No. 255, including those described in Articles 2.02 and 2.04 of Act No. 255, without the limitations expressed in Article 2.03 of said Act.

If the Cooperative violates the stipulations in this Article or in the regulations adopted under it, it will be subject to the possibility of the Corporation to impose an administrative fine not higher than five thousand dollars (\$5,000) for any violation of this Article.

Authorization to Grant Loans to Non-Profit Entities

This Cooperative may grant loans to other societies organized under the Laws of Puerto Rico and to any legal person, association, foundation, institution, company or group of people who operate as non-profit entities, cooperatives of workers owners and/or family cooperatives organized in accordance with the Laws of Puerto Rico, regardless of whether they are, or are not, members of the cooperative and with the previous authorization of COSSEC.

Article 9.03 – Administrative Fines

- a) The Corporation may impose to any cooperative that incurs in violations to the stipulations of this Act or of the regulations adopted under it or that violate the resolutions or orders and to any member of the governing bodies or any executive officer or employee of them who is responsible for said violation, an administrative fine not higher than five thousand dollars (\$5,000).
- b) The Corporation may impose administrative fines of up to one hundred dollars (\$100) daily to any cooperative who ceases to submit any report required by the Corporation.

Article 9.04 – Responsibility for Violations of the Law

It is understood that any violation to the stipulations of Act No. 255 incurred by the Cooperative is also committed by the responsible officer or employee in accordance with his or her duties, in conformity with the regulations, policies and procedures of the Cooperative. If that responsibility had not been expressly assigned to any officer or employee of the Cooperative through regulations, policies and procedures, all members of the Board of Directors and of the Cooperative committees will be responsible, unless said member can prove that he or she had no knowledge of it or that he or she performed all the reasonable acts and efforts to prevent the violation from occurring. The continuation of any act or omission that constitutes a violation to the stipulations of the law will be considered a new offense for each subsequent week in which the commission or omission in question persists.

Article 9.05 – Felonies

- a) Will incur in a felony and if convicted will be punished with jail reclusion for a fixed term of six (6) years, any member of the Board of Directors, of the committees and any executive officer, employee or agent of the Cooperative who:
 - 1. removes or makes an undue application for money, funds or credits from a cooperative or of securities existing in it;
 - 2. without duly authorize to issue or dispatch some certificate of deposit, discharges some order or bill of exchange, transfers some promissory note, bonus, bank draft, time draft, makes some acceptance or makes a false entry in any book, report, statement of situation of the cooperative, with the intention of defrauding it or defrauding any other natural or legal person or any other cooperative entity, or with the intention of misleading the Corporation or any other executive officer or person designated to audit, examine or investigate matters of the Cooperativa de Ahorro y Crédito;
 - 3. receives any fees, commission, gift or valuable thing from any person, firm or corporation for obtaining or trying to obtain any loan or the purchase or discount of any document, promissory note, bank draft, check or bill of exchange from any cooperative; or
 - 4. receives any benefit for rendering any service that the Cooperative would ordinarily offer to the person if he or she complies with the stipulated requirements for it.
- b) Similarly, will incur in a felony and if convicted will be punished with jail reclusion for a fixed term of six (6) years, and person who:

- 1) with the intention of defrauding or misleading, assists or allows that any member of the Board or of the committees, executive officer, employee or agent of a cooperative incur in any of the acts described in subsections (1), (2), (3) and (4) of Article 9.05 of Act No. 255;
 - 2) provides false information in any application or document through which any right, obligation or interests, is created, transferred, ended or affected, that is, provide false information in credit applications, promissory notes or any other document with the intention of defrauding the Cooperative.
- c) In the event of aggravating circumstances in one or more of the previous cases, the fixed penalty established could be increased up to a maximum of ten (10) years; in the event of mitigating circumstances, it could be reduced to a minimum of four (4) years. The Court could impose the restitution penalty, in addition to the established reclusion penalty, in any of the previous modalities or both penalties, at his or her discretion.
- d) Will incur in a felony and if convicted will be punished with a minimum fine of ten thousand dollars (\$10,000) or suspension of its certificate of incorporation or organization for a minimum term of one (1) year, or both penalties at the discretion of the Court, any legal non-cooperative person who intends to control, limit, influence or in any way illegally interfere with the legal authority, rights and acts of cooperatives organized in conformity with Act No. 255.

Article 9.06 – Crimes Against Cooperative Funds

Will be sanction with reclusion penalty for a fixed term of eight (8) years any member of the Board, of the committees, officer, employee or Cooperative agent and any person in charge of receiving, saving, transferring or disbursing Cooperative funds performed by one or more of the following acts:

- a) without any legal authority appropriate, in whole or in part, for personal benefit or that of another person;
- b) lends them, in whole or in part, or speculates with them or uses them for any object not authorized by law;
- c) do not hold them in his power until disbursing them or delivering them in accordance with the authority of law;
- d) illegally deposit them, in whole or in part, in any cooperative, bank or financial institution, or in possession of another person;
- e) keeps some false account or makes a false entry of said funds or related with them;
- f) alters, falsify, hides, destroys or scratches out any account or document related to them;
- g) refuses or stops paying at its presentation any bill of exchange, order or deliverance sent by a competent authority against the funds he or she holds;

- h) ceases to transfer them, in cases in which by law or regulation that transfer is demanded;
- i) ceases or refuses to deliver to any officer or another person authorized by law to receive them, any amount of money that, by law, has the obligation to deliver;
- j) trades or converts the funds to cash, to paper or another current currency or negotiable tool with the legal authority to do so; or
- k) neglects or not saves or disburses the funds in the way stipulated in Act No. 255 or in its regulations.

Any person not a member of the Board, of the committees or executive officer, employee or agent of the Cooperative who is guilty of one or more of the prohibited acts in this Article, regardless if he or she obtained any personal economic profit, shall be sanctioned with the penalty herein stipulated.

Article 9.07 – Damaging Information

Any person who knowingly and maliciously makes, circulates or transmits any manifestation, rumor or written or verbal indication, that results directly or indirectly in discrediting the institution, its governing bodies or its executive officers, or that affect the solvency or liquidity of the Cooperative, or that advises, helps, procures or induces another person or entity to originate, transmit or circulate any manifestation or rumor of such nature, shall be guilty of a felony and if convicted will be punished with a fine of not less than one thousand dollars (\$1,000) or with prison time for a term not higher than five (5) years, or both penalties at the discretion of the Court. Stipulating that it would not be considered a violation of this Article true verbal or written manifestations expressed for the record by members of the Cooperative in the course of business in ordinary and extraordinary assemblies of the institution.

Article 9.08. – Special Investigator

In very case in which the Public Corporation for the Supervision and Insurance of Savings and Credit Cooperatives (COSSEC, for its Spanish acronym) has reasonable cause to believe that any member, member of the governing bodies, executive officer of the cooperative or any other person has incurred in any act that constitutes a felony in accordance with the Act 255, or with Act 115 of July 22, 1974, as amended, known as the 1974 Penal Code of Puerto Rico, or any other law applicable to cooperatives, must request the Secretary of Justice to perform a special investigation on this matter. The Secretary of Justice must designate within five (5) days after receiving such request, the prosecutor who will be in charge of the investigation.

Article 9.09 – Cooperatives Investigation Fund

Administrative fines collected as a result of the stipulations of this Act will be credited to the general fund of the Public Corporation for the Supervision and Insurance of Savings and Credit Cooperatives (COSSEC).

Chapter X – Fiduciary Duties and Conflicts of Interest

Article 10.01 – Duties

- a) Members of the governing bodies of the Cooperative are subject to a trust duty toward the Cooperative. This trust duty includes the diligence duty and the loyalty duty toward the Cooperative, as well as the duty of looking after and caring as a good family parent for the assets and operations of the Cooperative, together with the assets, shares and deposits of members and depositors entrusted to the institution.
- b) Members of the governing bodies, delegates and employees of the Cooperative cannot incur in direct or indirect conflicts of interest in relation to the cooperative. Any member of the governing bodies, delegate and employee of the cooperative will be subject to the following general ethical prohibitions:
 - 1) Cannot request or accept from anybody, directly or indirectly, for himself or herself, for any member of this or her family unit, nor for any other person, business or entity, any good of economic value, including discounts, tips, gifts, loans, favors or services in exchange for an act of the member of the Board or of a committee, delegate or employee that may be influenced in favor of that or any other person.
 - 2) will not disclose or use information or documents acquired during the performance of his or her function or job for purposes unrelated to it. Any member of a governing body, delegate or employee shall maintain the confidentiality of those matters related to his or her function or job, as applicable, unless he or she receives a petition that requires the disclosure of some matter and that it is allowed by a competent authority.
 - 3) Shall not obtain personal profit taking advantage of the position he or she holds.
 - 4) No member of a governing body, delegate or employee of the cooperative shall accept fees, compensation, gifts, payment for expenses or any other benefit with monetary value in circumstances in which his or

her acceptance may result in, or create the appearance of a conflict of interest in relation to his or her duties and responsibilities in the Cooperative.

- 5) No member of a governing body or employee of the Cooperative who is authorized to contract on behalf of the cooperative may enter into a contract between the cooperative and an entity or business in which any member of his or her family unit has, directly or indirectly, a for-profit interest.
- c) The Cooperative Board must establish internal rules geared to protect the integrity and avoid conflicts of interest in the cooperative, which will be compatible with the stipulations of Act No. 255 and with the applicable regulations the Corporation may adopt. The rules will include, as minimum, the following:
 - 1) ethical prohibitions related to other positions, jobs, contracts or businesses;
 - 2) ethical prohibitions with the representation of private interests conflicting with the cooperative interests; and
 - 3) duty of the members of governing bodies, delegates or employees to inform the Board of Directors about possible conflicts of interest situations.
- d) The Corporation, through regulations, may establish additional ethical rules applicable to members of governing bodies, delegates and employees of the Cooperative. Such rules may include, among others, rules that address the conflicts of interest that arise from family relationships among the different components and organisms of the Cooperative.

Chapter XI – Accounting Requirements in Special Investments

Article 11.01 – Special Investments

- a) The following are called Special Investments:
 1. Cooperative investments in bonds, securities and other debt vouchers from the Commonwealth of Puerto Rico, as well as its agencies, corporations, instrumentalities, authorities and political subdivisions, including the Government Development Bank of Puerto Rico and its affiliates, made on March 31, 2015, or before; and any investments, bonds, debt vouchers, notes, promissory notes, capital obligations, certificates, participations, instruments or other assets and/or securities received as part of any initial or subsequent transaction, restructurings, refinancings or renegotiations of any of the described instruments, including instruments issued by entities or special structures as part of the previously mentioned transactions or restructuring processes, refinancing or renegotiation.

2. The Special Investments described in subsection (a)(i) of this Article or those that arise as a result of a renegotiation, as described in subsection (a)(i) of this Article, will be considered as allowed investments, regardless of what any regulations, circular letters, test reports, or any other administrative decision of the Public Corporation for the Supervision and Insurance of Savings and Credit Cooperatives (COSSEC) and of any other governmental agency of the Commonwealth of Puerto Rico.

Article 11.02 – Accounting Treatment of Special Investments

- a) From April 1, 2015, on, Special Investments will be registered in accounting books of the Cooperative at their amortized cost and not at fair value nor mark-to-market, independently of their classifications as securities available for sale to be held to maturity. Amortized cost is defined as the amount paid for the investment, plus the incidental amount of costs in the purchase. Subsequently, Special Investments will be maintained registered to the referred amortized cost, subject to the payments, redemptions and other transactions regarding them. In consonance with this accounting rule, accounting books and the financial statements of the Cooperative will not reflect unrealized losses regarding Special Investments, stipulating that any loss of any type attributable to the Special Investments will be guided by subsection (b) of this Article.
- b) Any losses attributable to Special Investments, both in their disposal as well as when they are retained by the Cooperative, that arise due to the application of any rule, pronouncement, analysis or procedure stipulated by the generally accepted accounting principles or by requirements or pronouncements of regulatory agencies, will be the object of amortization in a period not to exceed fifteen (15) years. The amortization period will be defined by the Cooperative's Board of Directors taking into consideration the recommendations of the Executive President and the institution's financial and accounting advisors, provided such advisors have not participated in the sale and placement of the Special Investments. For purposes of this Act, the term Losses under Special Amortization is defined as those losses relative to Special Investments that are the object of calculated amortization, as disposed in this Article. The financial statements of the Cooperative will identify separately in the income and expense statement and in their notes those Special Investments that have been the object of disposition and that subject to amortization of losses in conformity with what this Article stipulates.
- c) In conformity with the stipulations of this Article, the financial statements of the Cooperative will include, as part of their Notes, the following disclosure:

1. The investment portfolio of the Cooperative includes a material amount of instruments issued by the Commonwealth of Puerto Rico and/or its instrumentalities. At the date of these financial statements, the market value of said investments is \$_____. To address such circumstances, the Public Corporation for the Supervision and Insurance of Savings and Credit Cooperatives of Puerto Rico has adopted a special rule that stipulates that the cooperatives record the bonds of the Commonwealth of Puerto Rico and its instrumentalities in an uniform way as investments to be retained until maturity and that in case there is some loss in these investments, it could be amortized for a period of ___ years, which represent for this year the amount of \$_____. To address the special situation these investments present, the Cooperative has established a Special Investments Committee, as established in Act 255-2002, as amended, known as the 2002 Savings and Credit Societies Act amended until 2023, which monitors and evaluates continuously the whole bonds portfolio of the Commonwealth of Puerto Rico. In addition, it makes an additional contribution to the capital structure of the Cooperative.
2. The Corporation will not impose operational sanctions or restrictions to any cooperative, member of a governing body, executive officer, or employee of any cooperative because of the existence of Special Investments, except in cases a reiterated noncompliance pattern is detected with the stipulations in this Chapter or by acts that constitute violations to Articles 9.05, 9.06 or 10.01 of Act 255-2002, as amended. Neither the Corporation nor the external auditors will require that the cooperative, for any motive related to the current or former possession of Special Investments, special or additional reserves beyond the stipulations of this Act. Neither will any cooperative be disqualified from being an Adequate Condition Cooperative because of attributable or related to the current or former possession of Special Investments. Similarly, the current Act will not constitute a validation of financial, operational or regulatory situations or circumstances that do not have any relation with Special Investments. Cooperatives, at their discretion, may create voluntary reserves they deem pertinent to address risks related to Special Investments.

Article 11.03 – Creation of Temporary Special Reserve

As long as the Savings and Credit Cooperative maintains Losses under Special Amortization, as defined in this Act, it will establish a Temporary Special Reserve of ten percent (10%) of the unrealized loss of the Special Investments, plus minimum contributions that will be calculated as follows:

- a) Savings and Credit Cooperatives whose Indivisible Capital is equal or higher than that required by Act 255-2002, amended until 2023, and who count on a CAEL Composed Index of 1, 2 or 3:
 1. If at the close of the operational year the Losses under Special Amortization do not exceed twenty percent (20%) of the minimum required indivisible capital reserve, the cooperative will set up a minimum temporary reserve of five percent (5%) of its surplus, in addition to its regular contributions as stipulated by law or regulation, and may distribute up to a maximum of ninety five percent (95%) of the remnant.
 2. If at the close of the operational year the Losses under Special Amortization exceed twenty percent (20%), but do not exceed fifty percent (50%) of the minimum required indivisible capital reserve, the cooperative will set up a minimum temporary reserve of twenty five percent (25%) of its surplus and may distribute up to a maximum of seventy five percent (75%) of the remnant.
 3. If at the close of the operational year the Losses under Special Amortization exceed fifty percent (50%) of the minimum required indivisible capital reserve, the cooperative will set up a minimum temporary reserve of fifty percent (50%) of its surplus and may distribute up to a maximum of fifty percent (50%) of the remnant.
- b) Savings and Credit Cooperatives whose Individual Capital is lower than the required by Act 255-2002, as amended, or that count on a CAEL Composed Index of 4:
 1. If at the close of the operational year the Losses under Special Amortization do not exceed twenty percent (20%) of the minimum required indivisible capital reserve, the cooperative will set up a contribution to its indivisible capital reserve of at least twenty five percent (25%) of its surplus.
 2. If at the close of the operational year the Losses under Special Amortization exceeds twenty percent (20%) but do not exceed fifty percent (50%) of the minimum required indivisible capital reserve, the cooperative will make a contribution to its indivisible capital reserve of at least fifty percent (50%) of its surplus.

3. If at the close of the operational year the Losses under Special Amortization exceed fifty percent (50%) of its indivisible capital reserve, the cooperative will make a contribution to its indivisible capital reserve of at least seventy five percent (75%) of its surplus.
 4. In any event in which the indivisible capital of the cooperative does not reach the eight percent (8%) required by Act 255-2002, as amended, it will be addressed following the procedural and substantive demands stipulated in Article 6.02(a)(3) of Act 255-2002, as amended. In case the Capitalization Plan required by that Article is not approved or that after approval be object of substantial noncompliance, the Corporation may consider other regulatory actions that affect the continuity of operation or existence of the cooperative, the imposition of said restrictions must be ratified by the vote of two thirds (2/3) of the Corporation's Board of Directors.
- c) Every cooperative that counts with a CAEL Composed Index of 5 must reserve one hundred percent (100%) of its surplus, except for express dispensation from the Corporation.
 - d) The computation of the CAEL Area indexes and the CAEL Composed Index will only take into consideration the effect of the annual amortization of the realized loss in Special Investments. The effects of other financial considerations not related to the Special Investments will be treated in conformity with the stipulations of Act 255-2002, as amended, and the regulations adopted under its protection.
 - e) The Special Temporary Reserve will be maintained separately from other reserves and its use or distribution will remain restricted while the cooperative maintains Losses under Special Amortization. As the Board of Directors determines regarding the recommendations of the Executive President, cooperatives may transmit directly to this Special Temporary Reserve the uncommitted voluntary reserves of the cooperative, as well to make advance contributions to this Special Temporary Reserve, whose advance contributions will be used to comply with the contributions that in subsequent times may be, in fact, required. Every excess of temporary reserve above the Losses under Special Amortization will be freed and its amount could be:
 1. Transfer directly to the indivisible capital reserve;
 2. Transfer directly to other voluntary reserves of the cooperative;
 3. Recognized as operational income;
 4. Transfer directly to surplus; or
 5. A combination of the previous options.

Article 11.04. –Special Investments Committee

- a) The Board of Directors will designate a Special Investments Committee that will include three (3) members of the Board of Directors, the Executive President and one other managerial officer designated by the Executive President. The Special Investments Committee will be responsible for monitoring the performance and values of Special Investments, taking into consideration market conditions of Special Investments. The Committee will render a monthly report to the full Board about the condition of Special Investments, including any recommendations the Committee deems pertinent to manage their risks. The Committee may count on the accounting advisors, provided such advisors have not participated in the sale and placement of the Special Investments nor perform sale and purchase transactions of securities for the Cooperative.

Chapter XII – Final Stipulations

Article 12.01 – Amendments

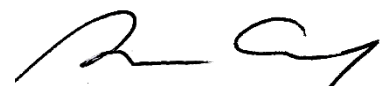
This Regulations may be amended in any ordinary or extraordinary assembly convened for such purpose, by two thirds (2/3) of the members present, provided that proposed amendments and the convocation to the assembly have been sent or delivered personally to each member with at least twenty (20) days prior to the assembly. No amendment will go into effect until it has been approved by COSSEC. (Refer to Article 3.05)

The Board may include in such notification the integral texts of the proposed amendments, or if justified by the costs, may opt to notify a summary of the proposed amendments, provided the Assembly had approved it previously.

Article 12.02 – Suspension of the Regulations

These Regulations may not be suspended in any of its parts except when any of them is in conflict with the State laws, in which case the part in conflict may be suspended with the in such purpose of conforming such stipulation with the law in conflict.

The below signatories, members of the Board of Directors of the **Cooperativa de Ahorro y Crédito Rafael Carrión, Jr., Certify** that these Regulations were approved in the Assembly of Delegates on September 30, 2023.



Brunilda Concepción Wichy
Chairwoman, Board of Directors



Luisa L. Oyola Colón
Secretary, Board of Directors



REVISIONS

Date	Changes
9/30/2023	View document Amendments to Regulations, September 30, 2023.
5/17/2024	Article 5.03 Quorum amended – in conformity with COSSEC Informative Letter No. 2024-08. On May 2, 2024, Act No. 65-2024, was signed, amending Article 5.03 of the 2002 Savings and Credit Cooperative Societies Act No. 255-2002, as amended. In summary, said Act clarifies who constitute the necessary quorum for holding the assembly on the second convocation, and reduces the waiting period between the first and second convocations from 2 hours to 30 minutes. Following, we identify the amended part: "Article 5.03–Quorum In the event that in a first convocation the required quorum is not obtained, a second convocation for the assembly will be issued, in which quorum will be constituted by the members or delegates present with the exclusion of minors who have not been emancipated nor those members who are not up-to-date in their obligations toward cooperative at the date of the convocation. Stipulating that it will not be a requirement that once the special quorum is met the same number of members must be present while the assembly is in session. The second convocation will never be held in a waiting period of less than thirty (30) minutes from the first convocation, provided the first and second convocations have been expressly indicated in the written notifications to the members or delegates, as corresponding, with the express indication that in the second convocation those present will constitute quorum with the exclusion of minors who have not been emancipated and those members who are not up-to-date in their obligations toward the cooperative on the date the convocation was sent." (Emphasis supplied).