



GOVERNMENT OF PUERTO RICO

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

Revised Fiscal Plan

March 21, 2018

DRAFT SUBMISSION – SUBJECT TO MATERIAL
CHANGE

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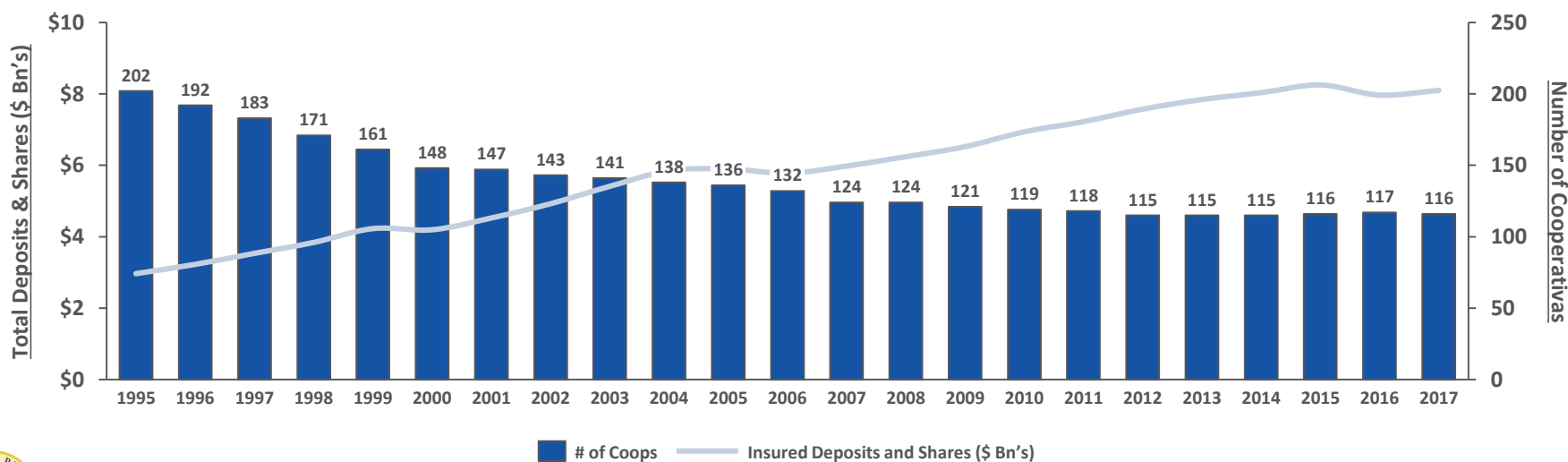
Introduction & Background

The Cooperativa system is a pillar of the PR economy, serving as the main alternative to a highly concentrated commercial banking sector

- The Cooperativa movement has a strong following in Puerto Rico with 115 savings and loans Cooperativas holding \$8.1 Bn of deposits and shares for nearly one million customers (this compares to approximately \$45 Bn of deposits held by banks operating in Puerto Rico)

 - Cooperativas have gained popularity in Puerto Rico as customers feel a greater sense of loyalty to their local institution, especially given that the Cooperativas are owned by their shareholders rather than stockholders
- The individual Cooperativas are significantly smaller than banks in Puerto Rico and often offer a more personalized banking experience; the Cooperativas are viewed as an important institution in many Puerto Rican municipalities, with the management of the local Cooperativa often serving as leading figures in the community
- While the number of individual Cooperativas was falling in the years leading up to the financial crisis, the number has remained fairly stable since then as the Cooperativas have taken market share from the banks. Over the same time period, the amount of insured deposits and shares at the Cooperativas has increased nearly 158%, suggesting the migration of customers from banks to Cooperativas

Insured Deposits and Shares (\$ Bn's) as of December 2017 (Calendar Year)



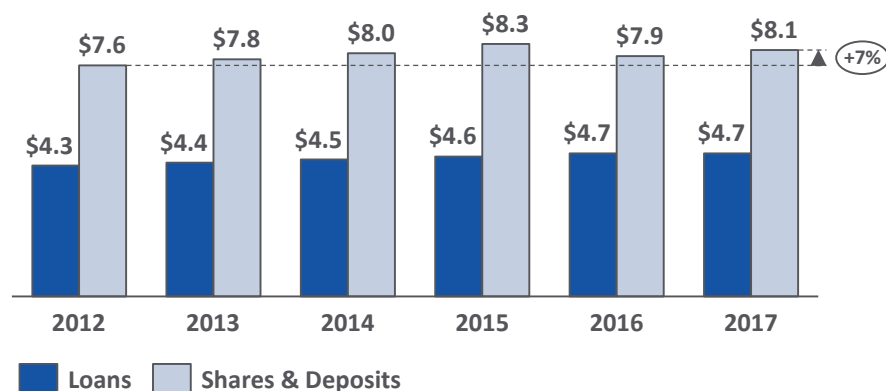
Source: Information obtained from December 2017 Call Report

While its funding sources have remained stable over the years, the Cooperativas have been able to grow their asset base

- System assets experienced 9% growth between 2012 and 2017 (1.2% CAGR); this was primarily due to a ~\$400 MM increase in loan balances while cash and other assets remained flat
- This growth in loans was primarily funded via an increase in shares and deposits which accounted for ~\$600 MM of the increase
- Over the 5 year period the ratio of loans / shares & deposits remained fairly constant in the 57-59% range
- The loan / shares & deposit ratio is well within the range targeted by many banks
- At less than 100%, this means that the Cooperativas are able to fund all of their existing loans from member deposits and shares and are not forced to borrow short term funds to make loans. In addition, there is ample liquidity to satisfy deposit redemptions under normal circumstances and relatively stressed scenarios.
- By avoiding the timing mismatch between borrowing short term in the market to make longer term loans, the Cooperativas are able to insulate themselves from a liquidity shock due to a loss of market access

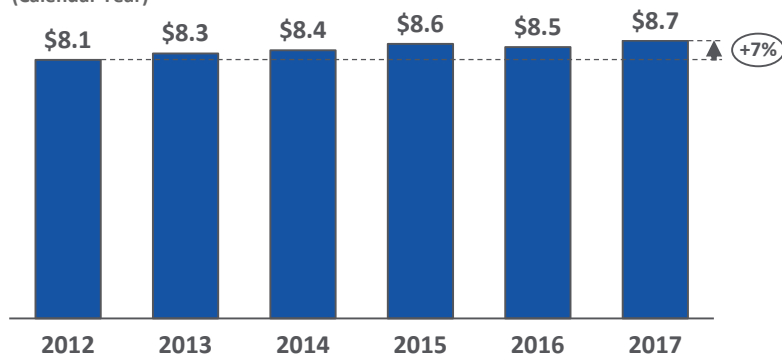
Loans and Shares & Deposits (\$ Bn's) as of December 2017

(Calendar Year)



Total Assets (\$ Bn's) as of December 2017

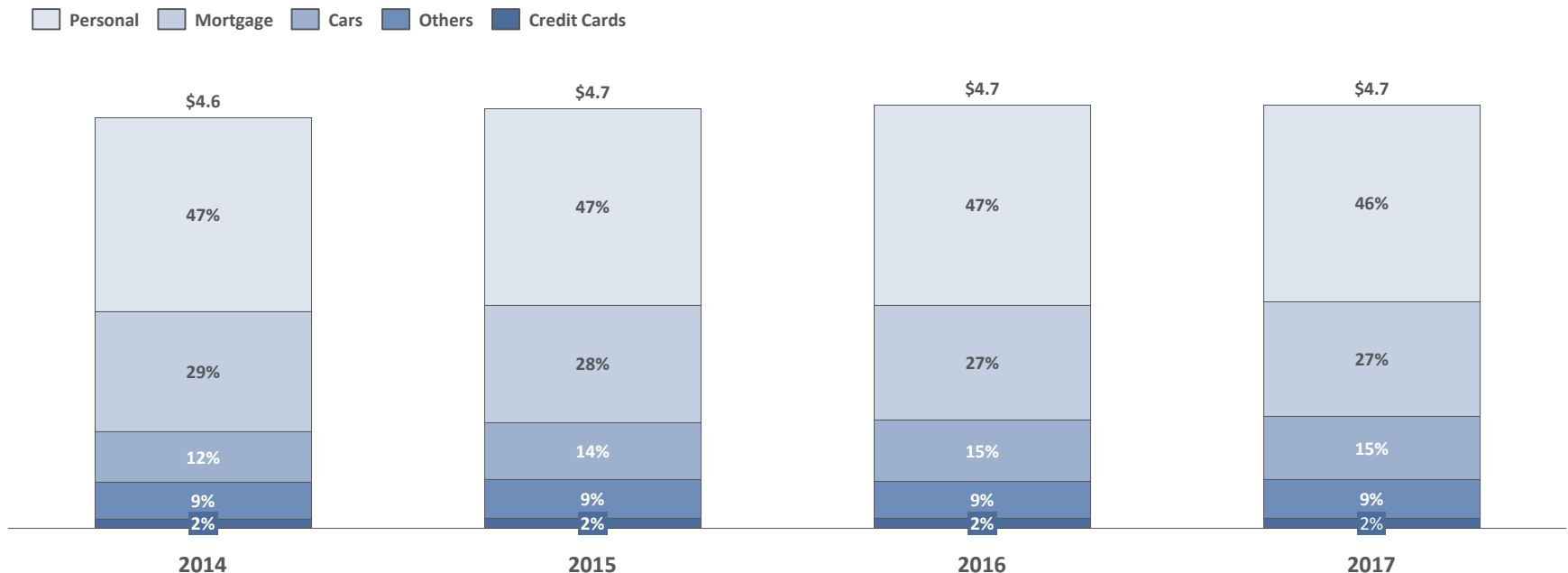
(Calendar Year)



Despite high rate of personal loans, risk adjusted losses are far lower than expected for similarly situated banks in the U.S. This is due to the high rate of pledged collateral (deposits and shares) as well as a high degree of loyalty that members have towards their Cooperativa.

- Cooperativas generally serve the unbanked / underbanked community and are able to underwrite loans for clients that traditional banks may not engage. In the majority of cases, a member’s deposits and shares are pledged as a guarantee for their loans.
- Personal & Consumer loans make up the largest percentage of the Cooperativas’ aggregate loan portfolio (46% as of December, 2017); these are often unsecured loans, except for the pledge of existing deposits and shares, with relatively short terms
- Loans with physical collateral, such as mortgage and vehicle loans, make up 42% of the Coop’s loan portfolio (as of December 2017); while some of these loans may be classified as non-conforming, the physical collateral reduces the likelihood of loss in a default scenario

Loans by Type (\$ Bn’s) as of December 2017 (Calendar Year)



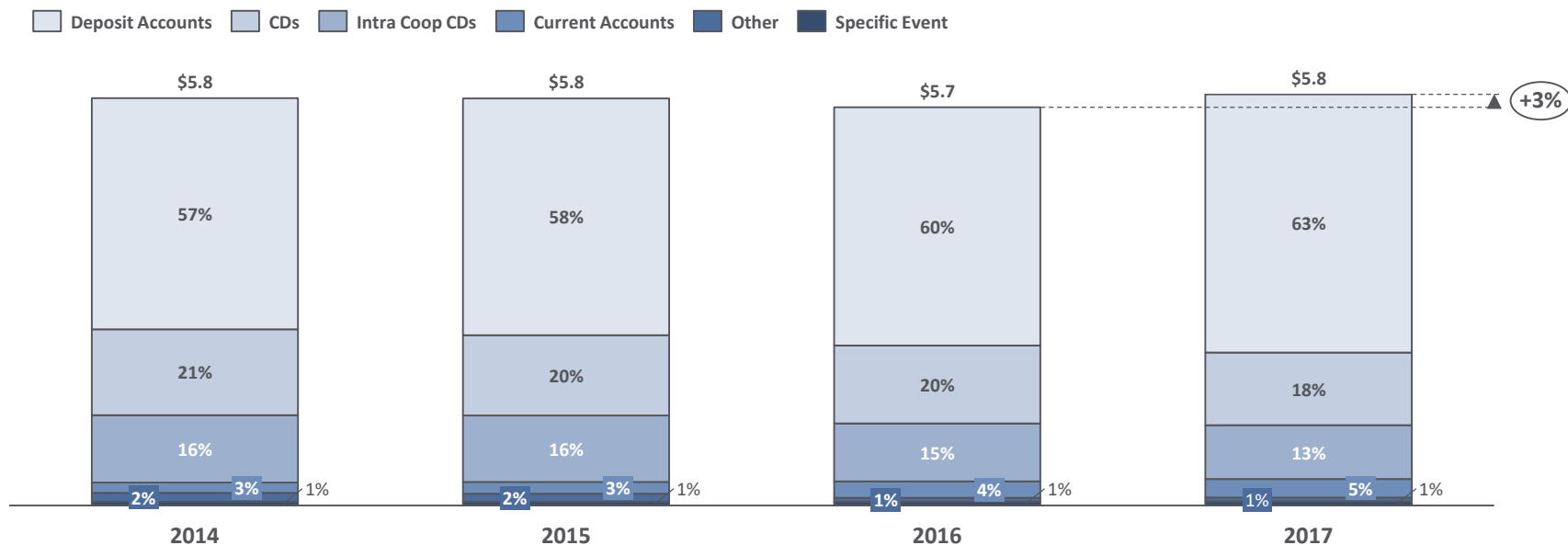
Source: Information obtained from December 2017 Call Report



Deposit base has been steady over the past two (2) years due to a loyal customer base who rely on the Cooperativas for their banking and financing needs

- The largest category of deposits are Money Market Deposit Accounts (“MMDA”) and savings accounts (63% of total deposits as of December 2017); examples of these accounts include checking accounts where the customer has immediate access to their funds and in return receives a lower interest rate
- Term deposits, such as certificates of deposit, account for 35% of total deposits as of December 2017. In exchange for a higher interest rate, customers agree to “lock-up” their funds for longer periods of time and will pay a penalty if they need to access funds before the maturity date on the deposit
- While the proportion of time deposits is relatively high as compared to the typical U.S. Bank (average of 32%), all of the Cooperativas time deposits would be considered retail/core deposits, resulting in a core deposit ratio close to 100% (versus the U.S. Bank average of (92%)

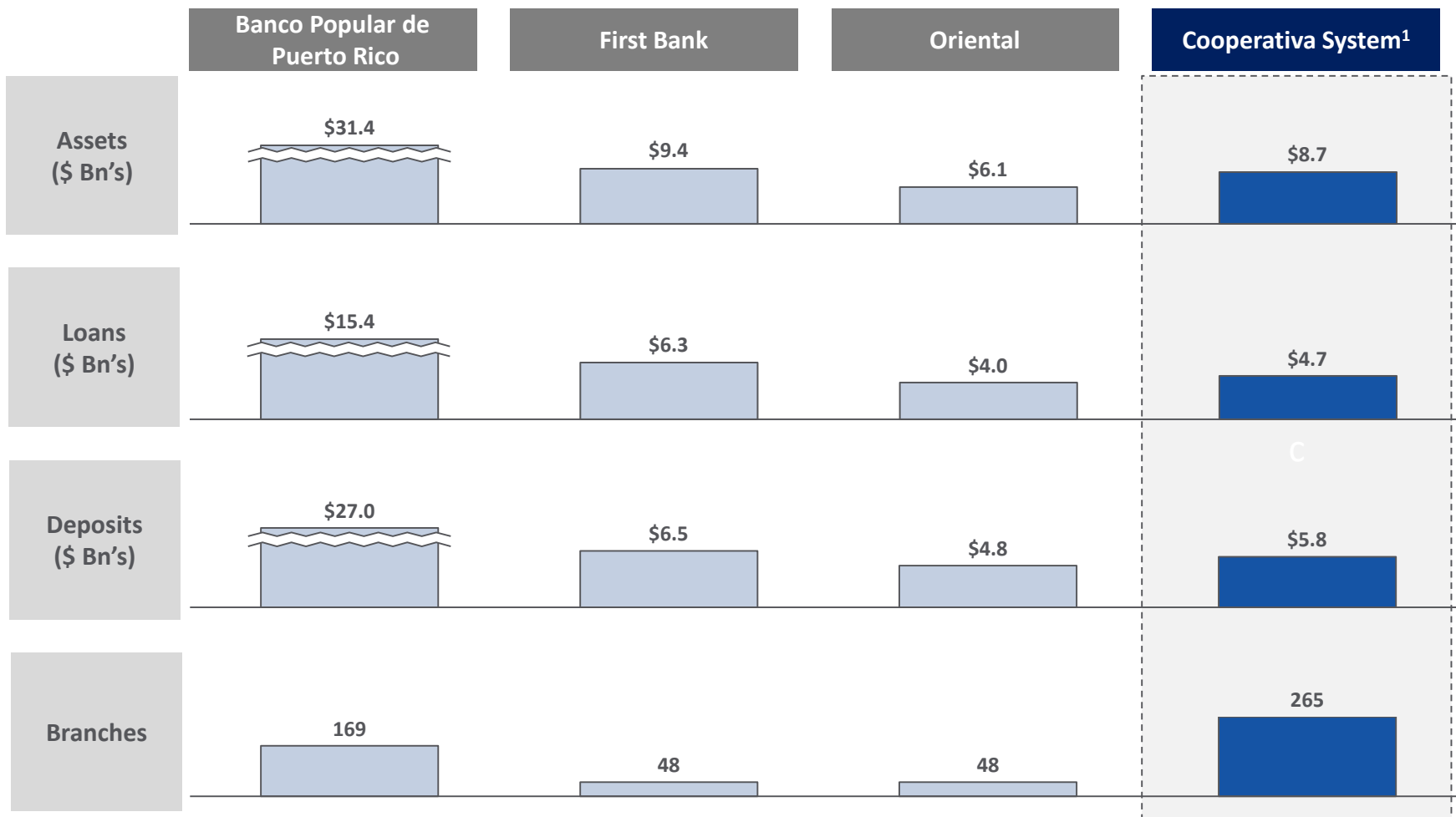
Deposits by Type (\$ Bn’s) as of December 2017 (Calendar Year)



Source: Information obtained from December 2017 Call Report

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While individually Cooperativas do not seem like a large financial system, taking the system as a whole, Cooperativas represent the third largest financial institution in Puerto Rico



Source: Information obtained at OCIF Database, numbers are from Q3 – 2017

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COSSEC is responsible for regulating Cooperativas in Puerto Rico as well as overseeing the deposits and shares insurance fund



- Act 114-2001 created the Public Corporation for the Supervision and Insurance of Cooperativas of Puerto Rico (“COSSEC”)
- COSSEC generates revenues from premiums paid by member Cooperativas and interest on its investments
- COSSEC’s risk is mainly driven by extraneous factors and reputational risks, to wit:
 - Certain Cooperativas have a high concentration risk in PR bonds issued by the Government of Puerto Rico and its instrumentalities;
 - Restructuring of PR bonds will impact said Cooperativas capital and income levels;
 - Lack of confidence in a financially distressed Cooperativa or group of Cooperativas may lead to a system wide deposit runoff

(1) On February 2018, a merger occurred between two Cooperativas



Instrumental in maintaining the supply of cash and providing essential financial services in Puerto Rico after the Hurricanes, Cooperativas reinforced their role as a key member of their community

- On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated Puerto Rico. The Hurricanes caused unprecedented economic and infrastructure related damages disrupting the daily lives of 3.4 MM residents.
- 15 days after Hurricane Maria, 90% of Cooperativas were servicing members of their communities. One month after the Hurricane, there were 17 municipalities in Puerto Rico where the only functioning financial institution was a Cooperativa.
- Cooperativas located in rural and remote locations in Puerto Rico overcame communications and devastated infrastructure issues and helped members have access to cash needs to meet basic requirements such as food, water, gasoline and medicines
- In response to the devastation caused by Hurricane Irma & Maria, COSSEC issued the circular letter titled “Loan Moratorium Report” stating that any Cooperative that desired to assist its member could issue a moratorium program on outstanding loans. The requirements were the following:
 - The terms of the program were established by each Cooperativa
 - The loan moratorium could not exceed 90 days
 - Loans ascribed to the program would not be considered as delinquent loans
 - Each Cooperativa must keep a detail account of members that entered into the moratorium program

Loan Moratorium Highlights



85 Cooperativas issued a loan moratorium program



118k members joined the moratorium program



77% or 89k moratoriums were issued for consumer loans



\$1.4 Bn in aggregate book value for all loans in the moratorium program

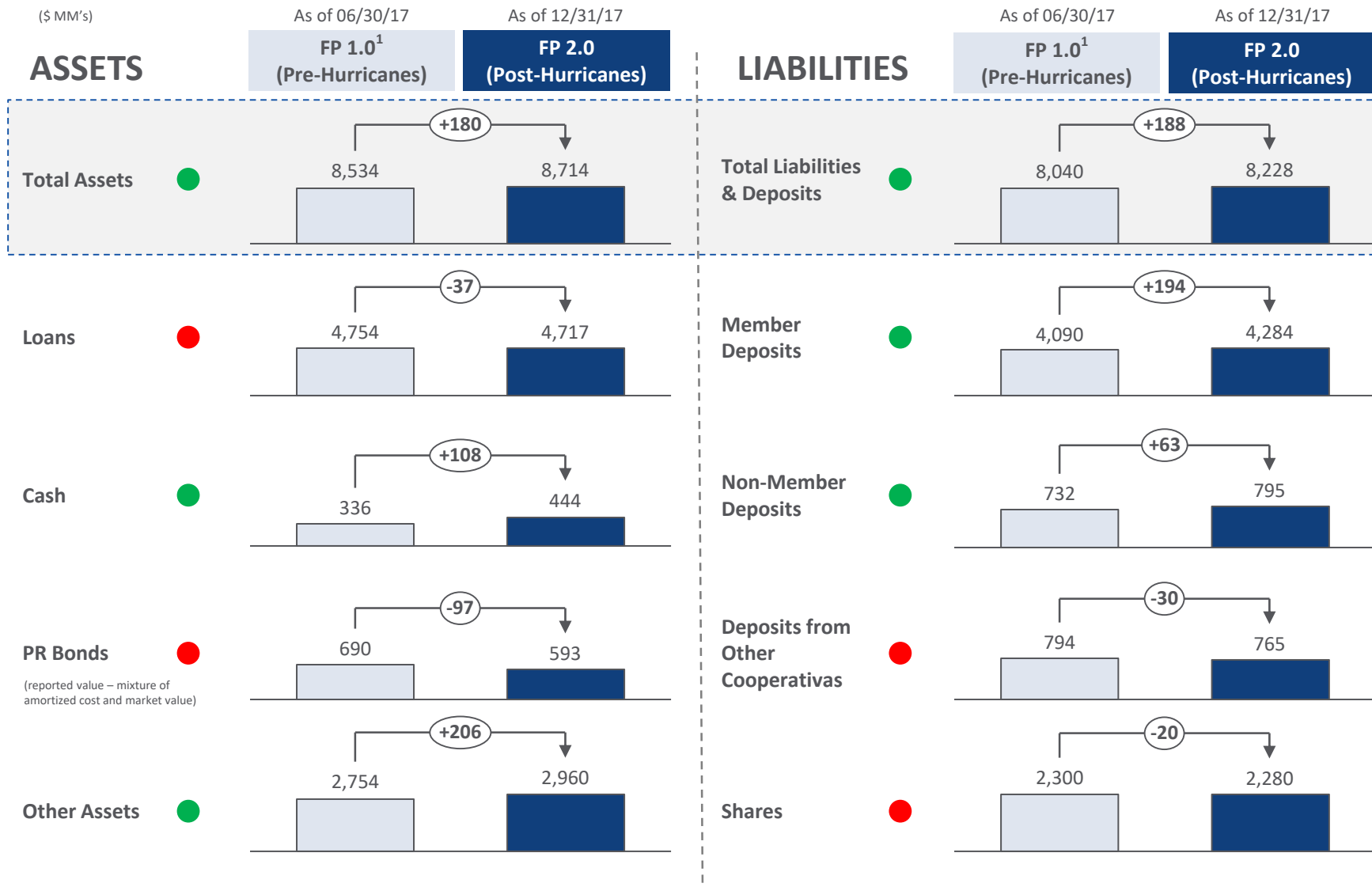


\$174 MM in aggregate book value for mortgage loans in the moratorium program

Source: Information received from COSSEC



Notwithstanding the unprecedented effects of Hurricane Irma and Maria, Cooperativas were able to increase their deposit base and liquid assets



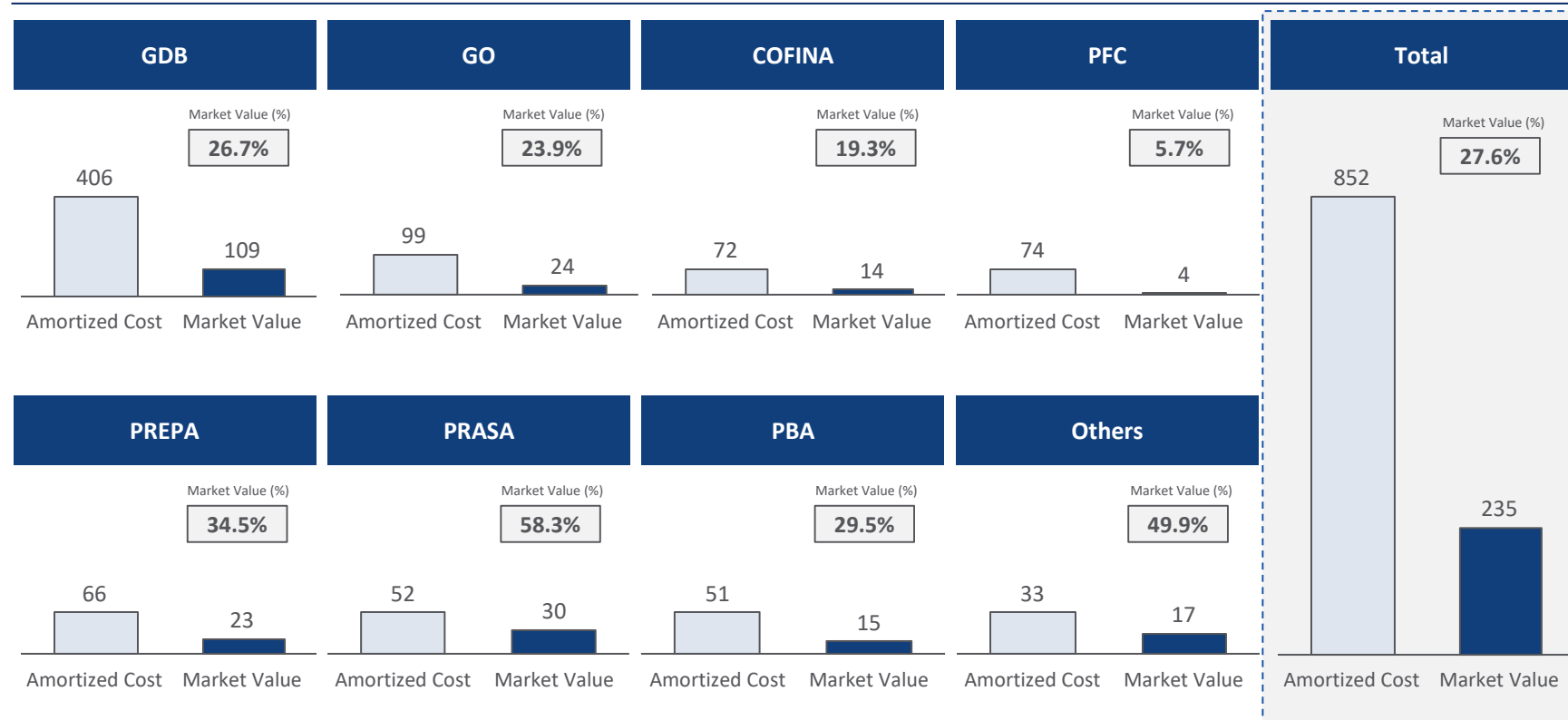
Source: Information received from December 2017 Call Report
 (1) – Fiscal Plan 1.0 refers to the August 4th 2017 Fiscal Plan certified by the FOMB



The Cooperativas are heavily invested in bonds issued by the Government of Puerto Rico and its Instrumentalities

- PR bonds (\$852 MM) account for approximately 56% of the Cooperativas total investment portfolio (\$1.5 Bn)
- The majority of Cooperativas purchased PR bonds at issuance and, due to regulatory accounting treatment, carry all of these “Special Investments” on their books at par value, even those bonds that trade well below par value
- Regulatory accounting treatment allows the Cooperativas to amortize losses on special investments over a 15 year period; however, this will only benefit the Cooperativas from an accounting standpoint as they will still suffer reductions in cash flow due to the likely restructuring of Government bonds

Cooperativas Investment in Government bonds as of December 2017 (\$ MMs)



Source: Information obtained from December 2017 Call Report

Note: Value may not reconcile since Cooperativas use a combination of market value and amortized cost



Special regulatory accounting treatment

- Currently Cooperativas accounting standards do not comply with the generally accepted accounting principles ("GAAP")
- Pursuant to Act 114-2001 COSSEC establishes through regulation, the dates and frequency that financial statements are to be rendered, the forms to be used, the persons bound to certify them, the information to be included or enclosed and any other convenient data or information in order to comply with the purpose of the Act
- Compliant with the aforementioned statute COSSEC issued Regulation 6758; which established Regulatory Accounting Principles ("RAP")
- Under the previous Administration, on December 15, 2015, the Puerto Rico Legislature enacted Act 220-2015 making the accounting parameters more accommodating for the Cooperativas with the purpose of improving the reported financial conditions of the cooperative system, "thus protecting its financial stability"
- Act 220-2015 amended Act 255-2002, known as the "Cooperative Savings and Credit Corporation Act", adding a chapter that sets different accounting requirements from the GAAP for PR bonds investments at Cooperativas
- In particular, it changed the accounting principles, standards and procedures for the presentation of what the legislation defines as "Special Investments" (i.e. investments in bonds and instruments of the Government of Puerto Rico)
- Pursuant to Act 220-2015, any losses attributable to Special Investments, both in the event of their disposition and also while held by the Cooperativas, arising from the application of any rule, pronouncement, analysis or procedure provided by the generally accepted accounting principles or by requirements or pronouncements of regulatory agencies, shall be amortized over a period not exceeding fifteen (15) years
- The Act also stated the following: "The Corporation (COSSEC) **will not impose sanctions nor operational restrictions** to any Cooperativa, member of its Board of Directors, executive member or employees because of the **creation of Special Investments or losses attributed to Special Investments**". This clause inhibits COSSEC to promptly comply with its role as a regulator.



As a response to Cooperativas being exposed to such high levels of PR bonds, COSSEC issued guidelines for a system-wide adoption of accounting guidelines for Special Investments

- The two main differences between RAP and GAAP is the treatment of *Acciones* or Shares and the Act 220 amortization of investment losses
- Under RAP, Cooperativas treat Member Shares as part of its capital base instead of a liability. This causes Cooperativas to understate its liabilities and overstate its capital base. Allowing Cooperativas to appear solvent, when the situation is otherwise.
- Act 220 allows Cooperativas to treat investments in Puerto Rico Government bonds as “Special Investments”. This segregation enables Cooperativas to mark investments in Puerto Rico Government bonds at amortized cost. Also, any loss in value attributed to “Special Investments” can be amortized for a 15 year period

<i>Example of RAP to GAAP Adjustments</i>	RAP	Adjustments	GAAP
Assets			
Cash	\$26,912,548	\$0	\$26,912,548
Investments:			
Held to Maturity	27,849,801	8,706,675	36,556,476
Special Investments	8,706,675	- 8,706,675	-
Loans	66,964,213	-	66,964,213
Property and Equipment	1,504,649	-	1,504,649
Investments in other Coop Members	2,386,240	-	2,386,240
Accumulated Interest, receivable and other assets	7,090,673	- 5,382,325	1,708,348
Total Assets	\$141,414,798	-\$5,382,325	\$136,032,474
Liabilities			
Deposits	76,527,601	54,870,292	131,397,893
Accounts Payable	573,919	-	573,919
Total Liabilities	\$77,101,520	\$54,870,292	\$131,971,812
Members Participation			
Member Shares	54,870,292	- 54,870,292	-
Accumulated Excess/Deficit	983,667	-4,839,665	-3,855,998
Other Reserves	1,754,108	-461,153	-1,292,955
<i>Capital Indivisible Reserve</i>	6,705,212	-73,257	6,631,955
Total Member Participation	\$64,313,279	-\$60,244,367	\$4,068,912



Current Corporate Governance Structure of COSSEC

- COSSEC is directed by a Board of Directors composed of the following nine (9) members:
 - the Cooperative Development Commissioner, who shall chair the Board of Directors
 - the Commissioner of Financial Institutions of Puerto Rico;
 - the Secretary of the Puerto Rico Treasury Department;
 - the Executive Director of FAFAA;
 - 3 representatives of insured Cooperativas;
 - 1 representative of the Puerto Rico Cooperative League; and
 - 1 private citizen representing the public interest
- Pursuant to Act 114-2001, the Board of Director of COSSEC has the power to establish through regulation:
 - Financial indicators that will alert the Corporation of problems that could result in the insolvency of the cooperativas;
 - The requirements of the risk management and proper financial administration policies of the insured cooperativas;
 - The rating standards, fees and special and regular premiums to be paid by cooperativas that avail themselves of shares and deposits insurance, as well as the mechanisms for the computation, imposition and payment thereof by the insured cooperativas;
 - The corresponding parameters and mechanisms for the progressive corrective action plans to be required of insured cooperativas that show deficiencies or risks of loss;
 - The supervision mechanisms to watch over and protect the rights and prerogatives of the members of every cooperativa, including the protection of their financial interests, their right to be properly informed, and preventing against deceitful and fraudulent practices in the offer, sale, purchase and every other transaction on or regarding the stock of cooperativas;
 - The dates on which and the frequency with which financial statements are to be submitted, as well as the forms to be used, the persons under the obligation to certify the same, the information that shall be enclosed or attached, and any other data or information deemed convenient;
 - The preventive or remedial measures needed to reduce the potential of loss of the insured cooperativas and minimize the losses, including the granting of financial aid in cash or through exchange of financial obligations.



Current Corporate Governance Structure of COSSEC – Appointment Process

- Cooperativas representation:
 - Selected exclusively by the cooperativas that have availed themselves of the shares and deposits insurance
 - The insured cooperativas shall elect one (1) person as director who is a member of the Boards of Directors of said cooperativas, and two (2) persons who are chief executive officers of insured cooperativas
 - Provided, that in no case shall more than one representative of the cooperativas correspond to the same cooperativa
 - The elected directors shall hold office for a term of three (3) years
 - No director shall hold said office for more than three (3) consecutive terms
- The selection procedure is the following:
 - Every insured cooperativa shall remit its nominations to the Corporation within a period of sixty (60) days counting from the 30th of June of every year in which representatives of the cooperativa movement are to be elected to the Board of Directors
 - Immediately after the nomination period has concluded, the board shall proceed to inform the cooperativas of the names, as well as the data on the training and experience of the nominated candidates
 - The nominated candidates shall have at least obtained a Bachelor's degree issued by a university recognized by the Government of Puerto Rico, and at least five (5) years of experience in cooperativas, whether as a voluntary or a professional leader
 - Furthermore, the nominated candidates must be chief executive officers or members of the board of directors of a cooperativa having a consolidated CAEL classification of three (3) or less
 - The cooperativas, through their board of directors, shall cast their vote which shall be certified by its Secretary. The vote cast by the cooperativa may be remitted to the Corporation in a sealed envelope prior to the date the assembly is to be held, or handed personally, also in a sealed envelope, by the delegate of the cooperativa at the assembly
 - The votes cast shall be opened and counted at the Annual Informative Assembly by the persons designated by the President of the Corporation
- Public Interest representation:
 - Designated jointly by the vote of three fourths (75%) of the total eight (8) members of the Board of Directors representing the government sector and the cooperativa sector for a term of three (3) years and hold office until his/her successor is appointed and takes office
 - Shall be a person of recognized moral integrity knowledgeable of and with an interest in the cooperativa and financial fields not employed by, or have any contractual relationship, or hold directive office in any private financial institution



2

Cooperativa System Capital & Liquidity Analysis

To assess the inherent risk present in the Cooperativa system, COSSEC has developed two models to determine the long term viability of Cooperativas

Federal Regulatory Guidelines Model

NCUA Report

NCUA (“National Credit Union Administration”) performed an analysis of the Puerto Rico Cooperative System in March, 2016. COSSEC has updated the report to include market value of PR bonds as of December 2017 and the most recent data available for all insured Cooperativas (2017-Q4). THIS REPORT IS BASED ON FEDERAL ACCOUNTING STANDARDS

Local Statutory Guidelines Model

Actuarial Report

Actuarial Report is the report that measures the sustainability of Cooperativas based on the ability to amortize PR bonds losses over time by projecting historical ROA. After the effects of hurricane Maria, COSSEC’s management requested to the actuaries an updated version of this report with 2017-Q4 financial data and the market value of its investments as of December 2017. THIS REPORT IS BASED ON LOCAL STATUTORY ACCOUNTING STANDARDS



NCUA - Methodology

NCUA assessed the ability of the Cooperativa system to withstand a financial shock due to the state of PR bonds. COSSEC replicated NCUA's report that focused on two events: (i) Capital and (ii) Liquidity scenario.

Liquidity Scenario

- **Available Liquidity** = Cash + CDs – Coop CDs (unwind effect) + Market Value of Marketable Investments
- **Deposit Run** = Run Percentage times (Total Deposits + 20% of Shares– Coop CDs)
- **Liquidity Shortage**= Available Liquidity- Deposit Run

Capital Scenario

- Reported assets plus PR bonds at Market Value minus liabilities and deposits (including shares and uninsured)
- ALLL adjustment: add 50% of TDRs and 6+ mo. delinquent loans where greater than ALLL
- Other real estate owned (OREO) write-down of 50%
- Write-down of investment in COSVI
- Estimated loss to COSSEC based on 20% of assets historical average loss given failure for FDIC and NCUA

Both scenarios utilize: PR bonds at Market Value (as of December 2017)

The NCUA report considers *Acciones* as a Deposit (Liability) in Cooperativas B/S



Actuarial Report - Methodology

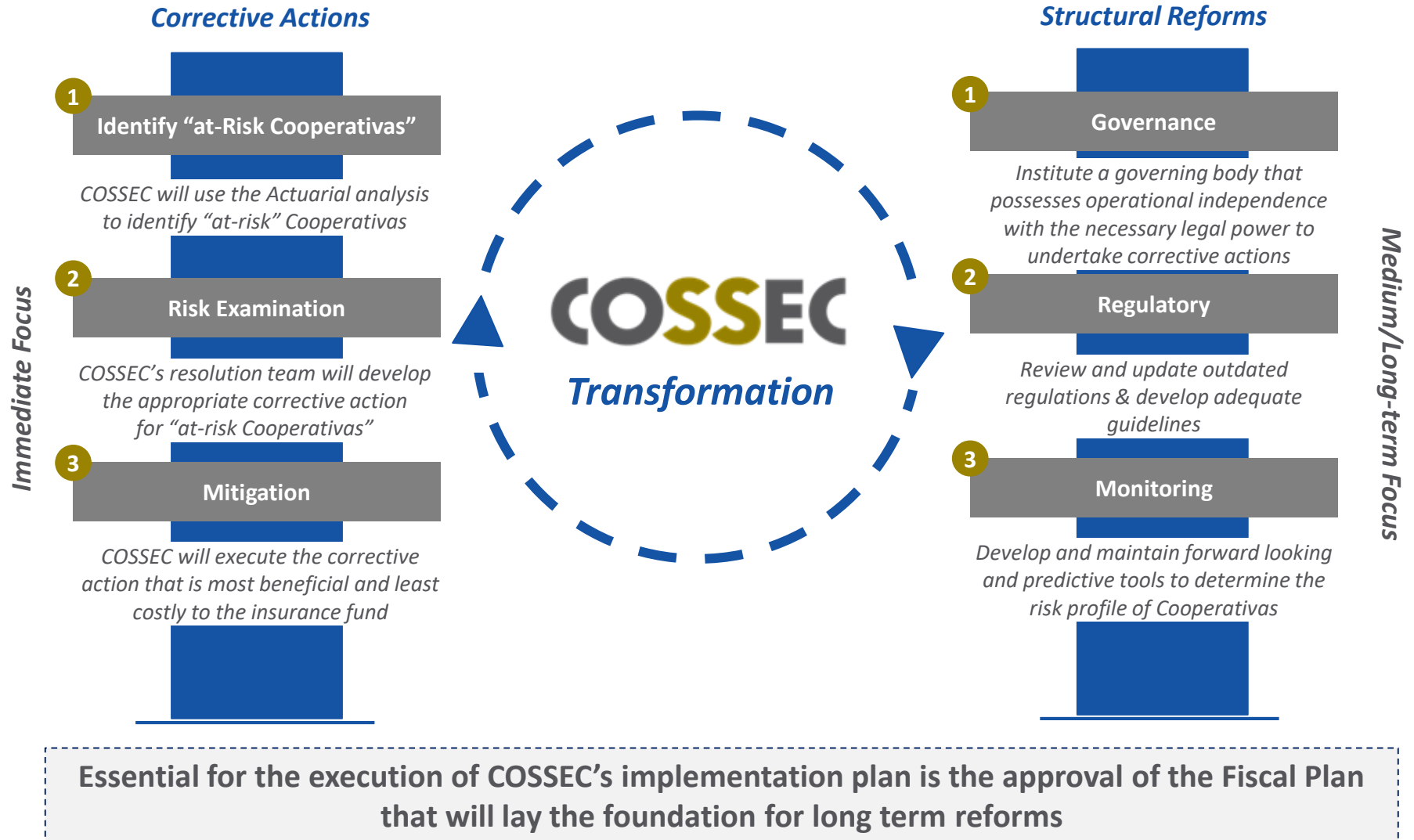
- To determine the long term viability of individual Cooperativas, each Cooperativas historical return on assets (“ROA”) and mix of investment securities at the CUSIP level was analyzed
- The analysis examined each Cooperativas ability to remain solvent, both with and without support from COSSEC, evaluated in terms of the cost of liquidating total PR bonds losses in one payment (e.g. a Purchase & Assumption) versus the cost of providing annual assistance to cover PR bonds related losses
- The Actuarial Report takes into consideration the ability of each Cooperativa to reach a target ROA (based on a 5 year historical average) and the capacity of each Cooperativa to absorb losses related PR bonds under the current regulatory accounting treatment, which allows Cooperativas to amortize the losses suffered on investments in PR bonds over a 15 year period



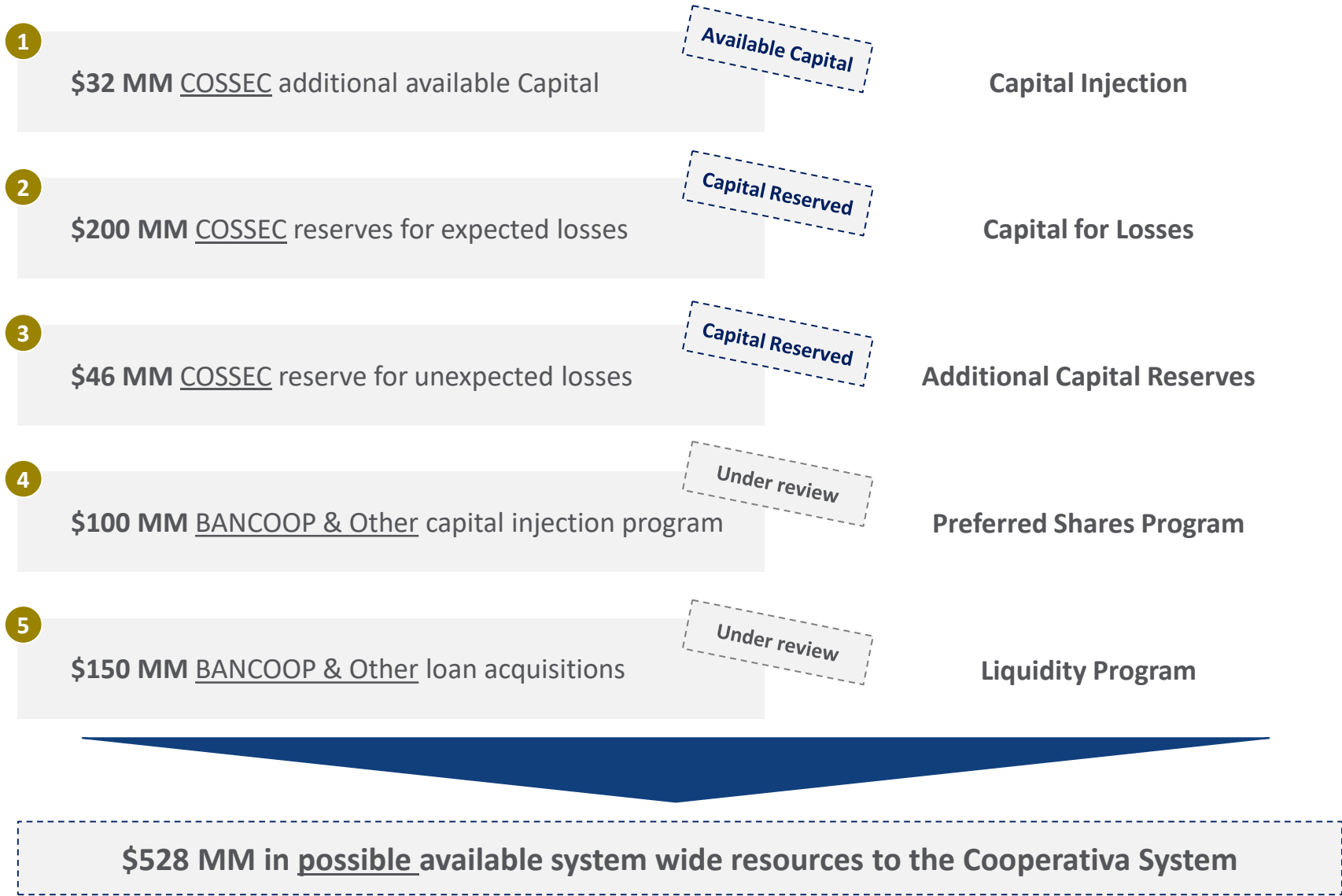
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Corrective Actions & Structural Reforms

COSSEC’s implementation plan is based on two approaches: (1) Corrective Actions and (2) Execution of Structural Reforms

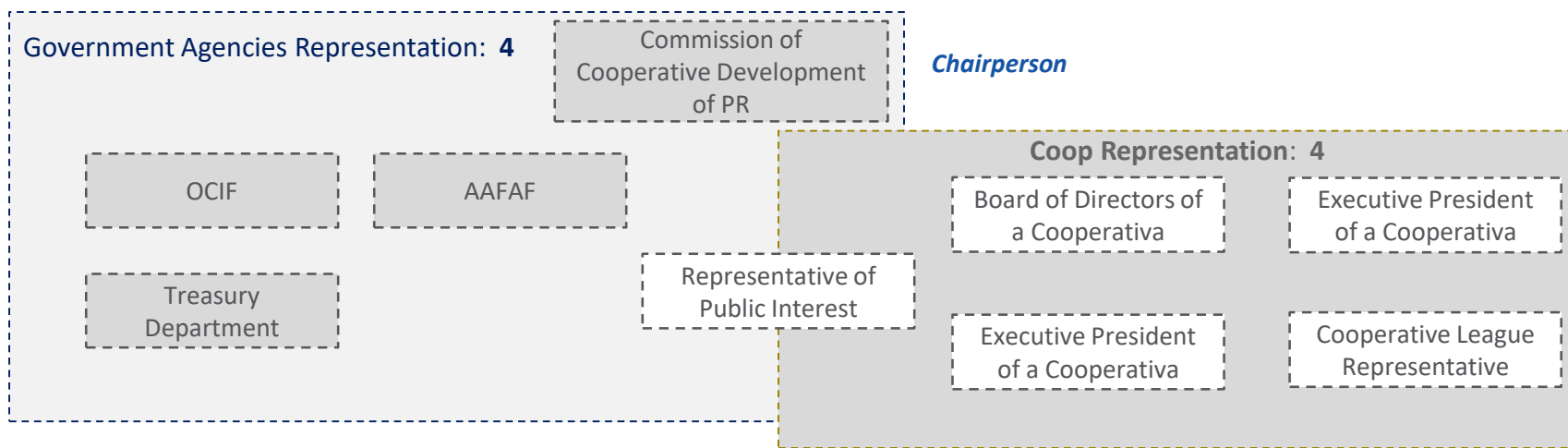


For adequate scenarios, a liquidity and capital program may be available for some Cooperativas consisting of up to \$378 MM in capital support and \$150 MM in additional liquidity in exchange for loan assets



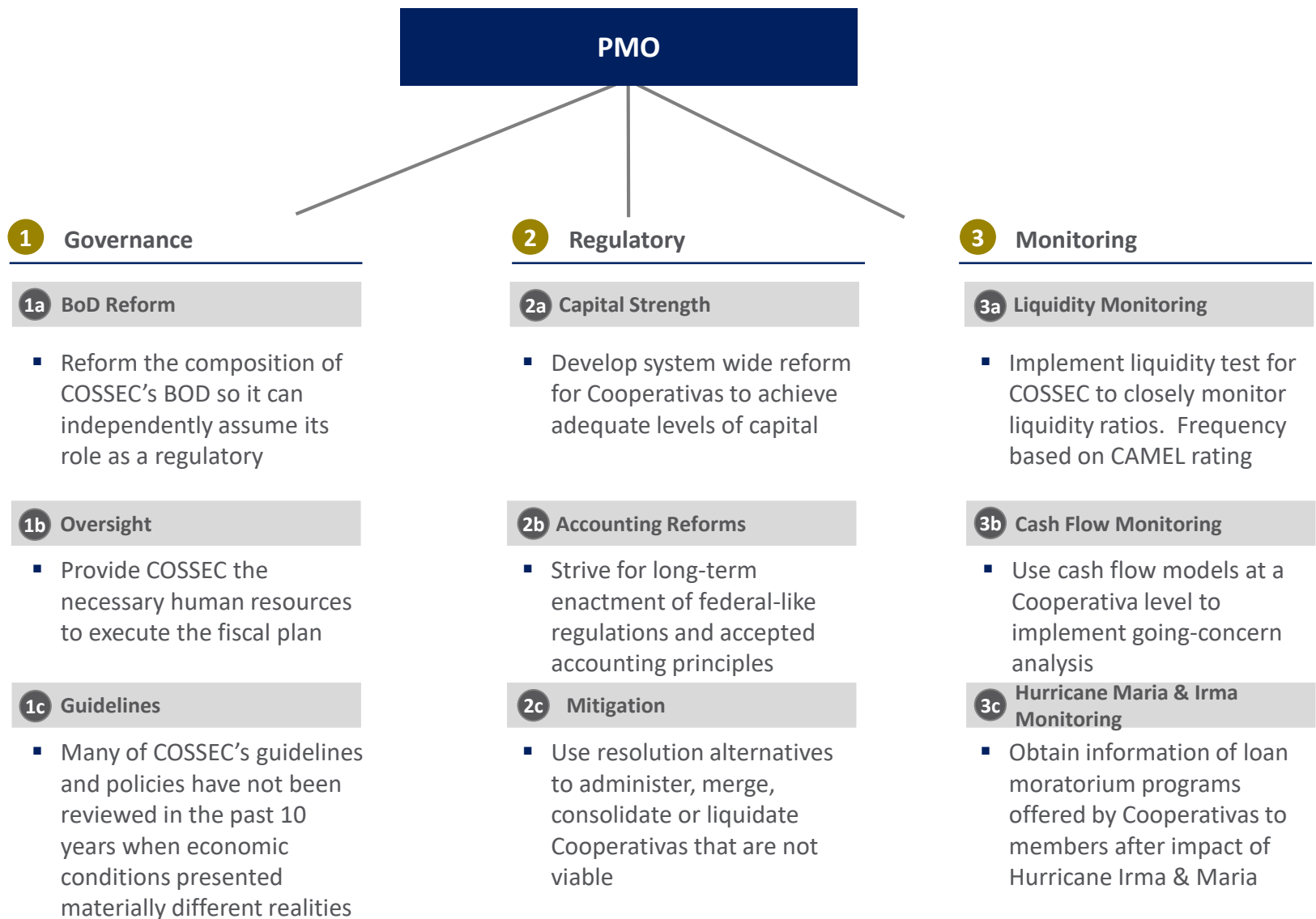
The Cooperativas have a majority in the composition of the Board. This has restricted COSSEC's ability to act as an independent regulator of the Cooperativa System.

Composition of COSSEC's Board of Directors:



- COSSEC regulates Puerto Rico's Cooperativas and insures deposits; however, COSSEC is also governed by the entities it regulates
- Cooperativas representatives have significant and at times, determining participation; this situation has the potential to cause conflicts of interest whereby these representatives may vote for actions that are in the best interest of the Cooperativas but not necessarily in the best interest of Corporation and the system as a whole
- This reality hinders COSSEC's independence, accountability and supervisory function as the Cooperativas' regulator
- Sound corporate governance in the Cooperativa financial system reinforces effective risk management and public confidence in individual Cooperativas and the system as a whole
- Although Cooperativas failure is not at all preventable, independent and swift supervisory oversight culture reduces both the probability and impact of such failures

Special Committee will be established as a PMO within the organizational structure of COSSEC to ensure the effective implementation of the necessary structural reforms






An effective, progressive and independent supervisory function is the key to the restoration of the financial health of the Cooperative system

		Governance Reform	Execution Risk Level/Priority		
	1a	BOD	<ul style="list-style-type: none"> Must be amended to promote independent criteria and impartiality. The regulated entities cannot dominate the regulators BOD 	●	High
			<ul style="list-style-type: none"> Members of the BOD must meet minimum qualifications (experience or academic criteria) 	●	High
			<ul style="list-style-type: none"> BOD scope must be limited to a supervisory function, separated from administrative and operational matters. 	●	High
	1b	Oversight	<ul style="list-style-type: none"> Update Liquidity measures 	●	High
			<ul style="list-style-type: none"> Continued education and trainings for COSSEC examiners and Cooperativa officers 	●	High
			<ul style="list-style-type: none"> Review retention plan for examiners 	●	High
			<ul style="list-style-type: none"> Standardize criteria to asses control and management among Coops 	●	Medium
			<ul style="list-style-type: none"> Include Management evaluation in Cooperativas examinations 	●	High
			<ul style="list-style-type: none"> Increase powers to request and monitor strategic plans, objectives and performance indicators by individual Cooperativas 	●	High
			<ul style="list-style-type: none"> Compulsory divisions in Cooperativas: Internal audits, governance committee and assets and liabilities committees (ALCOs) 	●	High
	<ul style="list-style-type: none"> Increase frequency of examinations for Cooperativas depending on assets size 	●	Low		
	1c	Guidelines	<ul style="list-style-type: none"> Review investment guidelines for all Cooperativas 	●	High
			<ul style="list-style-type: none"> Allow short term investments; mutual fund investments; require minimum qualifications for investment managers 	●	Medium
			<ul style="list-style-type: none"> Current regulation does not separate Cooperativas according to their asset level to allow different investment policies 	●	Medium
			<ul style="list-style-type: none"> Move towards using the MERIF indicator to better evaluate Cooperativas instead of the CAMEL rating 	●	Medium



COSSEC must modernize its current regulatory framework and embrace industry best practices to enhance its role as a regulator

		Regulatory Reform	Execution Risk Level/Priority
 2a Capital Strength	<ul style="list-style-type: none"> Identify appropriate capital levels through the Cooperativa system Review calculation of net worth ratio 	● High	
	<ul style="list-style-type: none"> Increase the liquid assets requirement of the statutory <i>Capital Indivisible</i> 	● Medium	
	<ul style="list-style-type: none"> Reassess formula of assets subject to risk when computing net worth ratios 	● High	
	<ul style="list-style-type: none"> Cooperativas that are structurally profitable, but are facing solvency issues because of PR Debt exposure, must submit Net Worth Restoration Plans (“NWRP”) 	● High	
 2b Accounting Reforms¹	<ul style="list-style-type: none"> Slowly transition from R.A.P. to GAAP Modify designation of Special Investments Determine appropriate accounting for member shares, currently labeled as capital instead of a liability 	● Medium	
	<ul style="list-style-type: none"> Review and update current accounting guidelines in COSSEC 	● High	
	<ul style="list-style-type: none"> Review and standardize across all Cooperativas accounting practices 	● High	
	<ul style="list-style-type: none"> Increase Capital and liquidity requirements for Cooperativas 	● High	
 2c Mitigation	<ul style="list-style-type: none"> Adopt industry best practices when it comes to resolution alternatives Develop new resolution manuals, that contemplate the following resolution alternatives: (1) Purchase and Assumption, (2) Deposit Payoff, and (3) “Bridge Bank” structure 	● High	
	<ul style="list-style-type: none"> Create a Prompt Corrective Action Manual, that are tied to mandatory supervisory actions: (1) earnings transfer to reserves, (2) NWRP, (3) restriction of asset growth, and (4) restriction of member business loans 	● High	

(1) Accounting reforms are a priority and one of the main roadblocks in the system, COSSEC considers a phase-in of GAAP reforms is the appropriate way



COSSEC has developed tools to help identify capital and liquidity levels throughout the system

Monitoring Tools

Monitoring Frequency

3a

Liquidity Monitoring

- COSSEC will monitor a weekly liquidity report for all Cooperativas
- All Cooperativas will submit a schedule detailing the closing levels of all the liquidity sources with investments at market value for each day of the prior week
- Average available liquidity and max. and min. levels will be tracked for each Cooperativas

Pending

Weekly (Depends on CAMEL Rating)

3b

Cashflow Monitoring

- COSSEC requested from each Cooperativa CFO or its equivalent a quarterly report that presents in a standard format all cash inflow and outflows, sources and uses, during that period
- Cash flow analysis projections prepared for this Plan, has raised awareness with COSSEC's management as to the importance of performing going concern assessments

Ongoing

Quarterly (Depends on CAMEL Rating)

3c

Hurricane Monitoring

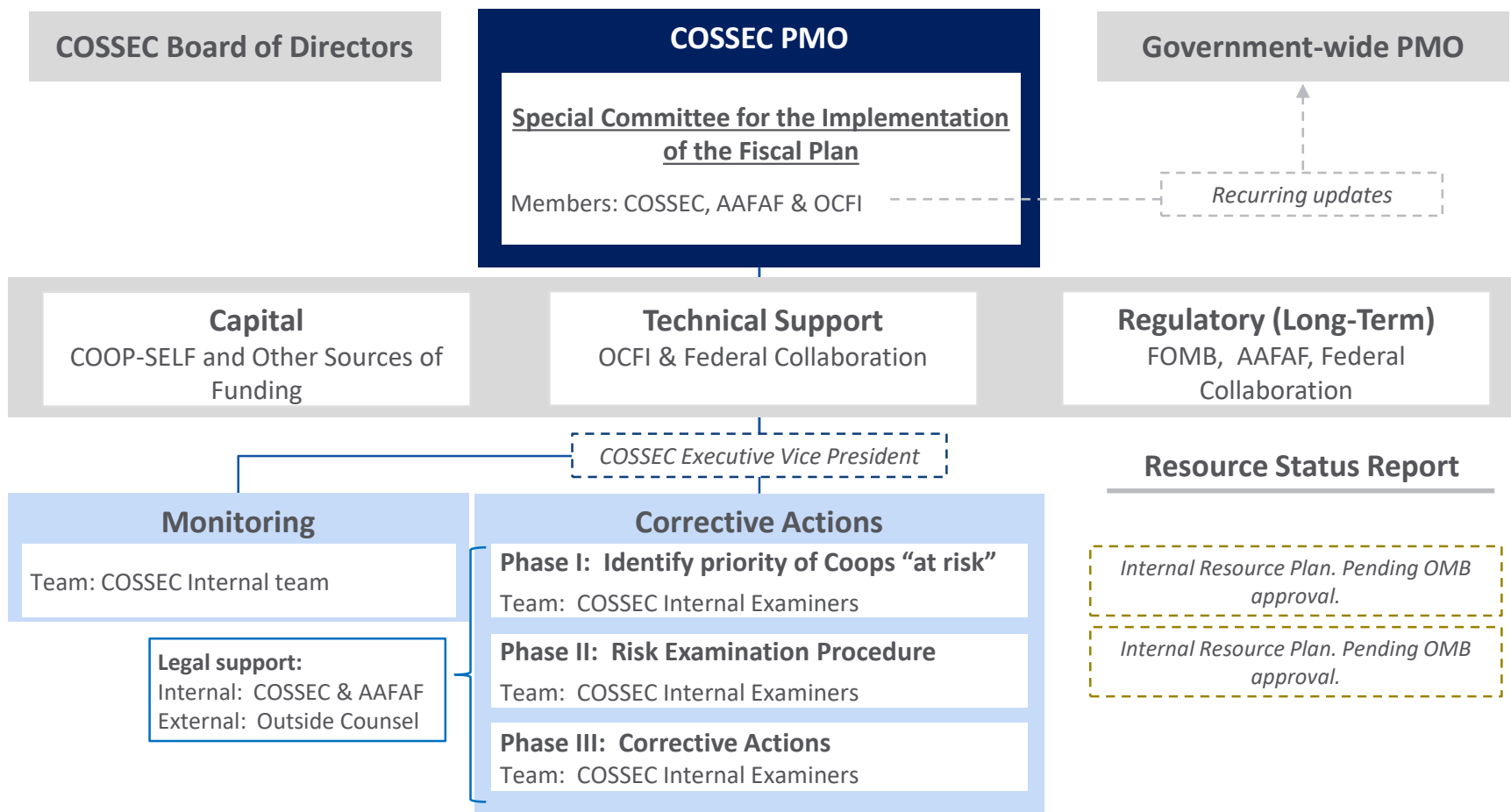
- In response to the devastation caused by Hurricane Irma & Maria, COSSEC issued the circular letter titled "Loan Moratorium Report" stating that any Cooperative that desired to assist its member could issue a moratorium program on outstanding loans
- Cooperativas that entered into the moratorium program needed to provide to COSSEC detail information about the loan moratorium program

Completed

One Time



COSSEC’s Special Committee will help accelerate the execution of critical reforms that will help transform COSSEC to a modern day regulator and insurer of deposits and shares



4

COSSEC FY19 Budget & 5 Year Financial Projections

FY19 Budget – Expense Summary

	Budgeted	Projected	Variance	
	FY17-18	FY18-19	\$	%
<u>OPERATING EXPENSES:</u>				
Salaries and other personnel costs	\$8,827,200	\$7,007,000	\$(1,820,200)	-20.62%
Acquired services	1,270,500	1,109,000	(161,500)	-12.71%
Utilities	60,000	60,000	-	0.00%
Other operating expenses	1,188,000	584,000	(604,000)	-50.84%
Travel and mileage expenses	408,000	418,000	10,000	2.45%
Professional services	585,600	790,000	204,400	34.90%
PROMESA and other related	535,000	315,000	(220,000)	-41.12%
Equipment acquisitions (Non-capitalizable)	20,000	15,000	(5,000)	-25.00%
Office supplies	87,000	81,500	(5,500)	-6.32%
Public awareness	65,000	65,000	-	0.00%
Total operating expenses	\$13,046,300	\$10,444,500	\$(2,601,800)	-19.94%
<i>Memo Item</i>				
Depreciation	576,000	559,000	(5,500)	-6.32%



FY19 Budget – Monthly Detail

	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Total
REVENUES:													
Premium (from Premiums Actuarial Report)	23,300,000	-	-	-	-	-	-	-	-	-	-	-	23,300,000
Other revenue (Based on FY17 results)	733,173	683,210	732,790	732,660	732,530	732,399	732,268	732,136	732,005	731,873	731,740	731,608	8,738,392
Total	24,033,173	683,210	732,790	732,660	732,530	732,399	732,268	732,136	732,005	731,873	731,740	731,608	32,038,392
OPERATING EXPENSES:													
Salaries & other personnel costs	583,917	583,917	583,917	583,917	583,917	583,917	583,917	583,917	583,917	583,917	583,917	583,917	7,007,000
Acquired services	92,417	92,417	92,417	92,417	92,417	92,417	92,417	92,417	92,417	92,417	92,417	92,417	1,109,000
Utilities	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
Other operating expenses	48,667	48,667	48,667	48,667	48,667	48,667	48,667	48,667	48,667	48,667	48,667	48,667	584,000
Travel and mileage expenses	34,833	34,833	34,833	34,833	34,833	34,833	34,833	34,833	34,833	34,833	34,833	34,833	418,000
Professional services	65,833	65,833	65,833	65,833	65,833	65,833	65,833	65,833	65,833	65,833	65,833	65,833	790,000
PROMESA and other related	26,250	26,250	26,250	26,250	26,250	26,250	26,250	26,250	26,250	26,250	26,250	26,250	315,000
Equipment acquisitions	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	15,000
Office supplies	6,792	6,792	6,792	6,792	6,792	6,792	6,792	6,792	6,792	6,792	6,792	6,792	81,500
Public awareness	5,417	5,417	5,417	5,417	5,417	5,417	5,417	5,417	5,417	5,417	5,417	5,417	65,000
Total	870,375	870,375	870,375	870,375	870,375	870,375	870,375	870,375	870,375	870,375	870,375	870,375	10,444,500
OPERATIONAL SURPLUS / (DEFICIT)	23,162,798	(187,165)	(137,585)	(137,715)	(137,845)	(137,976)	(138,107)	(138,239)	(138,370)	(138,502)	(138,635)	(138,767)	21,593,892



Despite the losses the Cooperativa system is expected to face, COSSEC is projected to have sufficient capital and cash flows under current regulation to continue providing insurance and regulatory oversight

Assumptions / Drivers:

- The following projections include estimated losses (“haircut”) derived from the PR bonds
- Insured shares and deposits are projected using GNP nominal growth rate from the Fiscal Plan for Puerto Rico
- Deposit insurance premium maintains a historical 5 year average based on total deposits and shares insured starting at .30% in FY ’18 increasing 1% YoY for the rest of the projection
- No special premiums are assessed during the projected period
- Minimum cash balance of \$5 MM at all times
- Assumes a yield of 2.76% on COSSEC’s investment portfolio
- The \$3.7 MM loan to COSVI is assumed to roll at maturity



5-Year Projection – Income Statement

(\$ MM's)	FY18	FY19	FY20	FY21	F022	FY23
<u>Operating Revenues:</u>						
Regular Premiums	23.3	22.3	24.5	25.6	26.4	27.2
Other Revenue	0.0	0.0	0.0	0.0	0.0	0.0
Total Operating Revenues	23.3	22.4	24.5	25.6	26.5	27.2
<u>Operating Expenses:</u>						
Provision for Known Losses	(53.9)					
Employee Compensation And Benefits	(7.0)	(7.1)	(7.2)	(7.3)	(7.4)	(7.5)
General And Administrative Expenses	(2.9)	(2.9)	(3.0)	(3.0)	(3.1)	(3.1)
Depreciation And Amortization	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Total Operating Expenses	(64.3)	(10.6)	(10.8)	(10.9)	(11.0)	(11.2)
Operating Income	(41.0)	11.8	13.8	14.7	15.4	16.0
Non-Operating Income / (Expenses)						
Interest Income	8.2	7.9	8.4	9.2	10.0	10.7
Amortization Of Premium, Net Of Discount	–	–	–	–	–	–
Realized Gain / (Loss) On Investments	–	–	–	–	–	–
Net Increase / (Decrease) In Mkt Value Of Investments		–	–	–	–	–
Total Non-Operating Income / (Expenses)	8.2	7.9	8.5	9.0	9.6	10.2
Change In Net Positions Before Capital Contributions	(32.8)	19.7	22.2	23.9	25.4	26.7
Coop Capital Contribution	–	–	5.9	2.7	1.8	1.5
Change In Net Positions	32.8	19.7	28.1	26.6	27.2	28.2



5-Year Projection – Balance Sheet

(\$ MM's)	FY19	FY20	FY21	FY22	FY23
Cash	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
Investments	\$283.1	\$302.8	\$330.9	\$357.5	\$384.7
Accounts Receivable	\$1.6	\$1.6	\$1.6	1.6	1.6
COSVI Note	\$3.7	\$3.7	\$3.7	3.7	3.7
Capital Assets	\$2.6	\$2.6	\$2.6	2.6	2.6
Total Assets	\$296.0	\$315.7	\$343.8	\$370.5	\$397.7
Accounts Payable & Accrued Expenses	\$0.8	\$0.8	\$0.8	\$0.8	\$0.8
Obligations for Vacation and Absences	\$2.8	\$2.8	\$2.8	2.8	2.8
Coop Investigation Reserve Fund	\$0.6	\$0.6	\$0.6	0.6	0.6
Reserve for Estimate Losses	\$246.6	\$246.6	\$246.6	246.6	246.6
Total Liabilities	\$250.9	\$250.9	\$250.9	\$250.9	\$250.9
Net Position	\$45.1	\$64.8	\$92.9	\$119.6	\$146.8
Total Liabilities & Net Position	\$296.0	\$315.7	\$343.8	\$370.4	\$397.6

