



What is AEELA?

I. INTRODUCTION

AEELA is a trademark, registered at the State Department, under number 121711-36-1, since July 11, 2013, and a property of the Asociación de Empleados del Estado Libre Asociado de Puerto Rico (Puerto Rico Commonwealth Employees Association). The Association is a private, non-profit organization (similar to a credit union), with more than 200,000 members who are active and former government employees. Therefore, AEELA is not an agency, department, instrumentality, or extension of the Government of Puerto Rico.

The Puerto Rico Commonwealth Employees Association's origin dates back to the approval of Act No. 52 of July 11, 1921, as amended, and of Act No. 133 of June 28, 1966, as amended. These laws stated that its purpose is to encourage saving among active and former government employees, and offer , life insurance, personal loans, and home and hospital facilities where members and their families can receive medical treatment, among other services.

Throughout the years, the Association has proven to be an example of sound management and efficient service, both built on an effective socioeconomic model. Its outstanding operations model is based on a representation system, whereby an Assembly of Delegates, a body elected by the direct vote of the members of the Association, governs all matters related therewith. However, several laws approved on November 2009 (Act No. 136-2009), April 2011 (Act No. 144-2011) and August 2012 (Act No. 188-2012) eliminated said system and replaced it with one that allowed for the intrusion of political partisanship and for ideologically biased government control. Unfortunately, a system that disregarded the democratic structures that were validated and established within a private Association was adopted.

To amend such a big mistake, on April 25, 2013, the Legislative Assembly of Puerto Rico adopted the new "Commonwealth of Puerto Rico Employees Association Act" (Act No. 9 of 2013), and repealed Act No. 133 of June 28, 1966, as amended, known as the "Government of Puerto Rico Employees Association Act," in order to revoke the legislation that adversely affected the institution; to restore the member's control over the Association; to stipulate that the Assembly of Delegates shall have full authority over the institutional decisions; to eliminate the nine board positions appointed by the Government of Puerto Rico under Act No.

144-2011, and to certify that the Association is a private institution, among other related purposes.

Thereby, it was reasserted that, since the Association is a private entity, it should not be at the mercy of the constant changes in public administration or of undue political influences. Thus, the Legislative Assembly deemed it necessary to establish those regulations typical of private institutions for its operation and to ensure that members regained control over the governance and administration of operational and financial matters through the Assembly of Delegates.

II. SAVINGS AND LOAN FUND

All members save at least 3% of their own monthly salaries in AEELA while they work for the government, as required by law. Government agencies send these savings directly to AEELA every month. Our assets amount to nearly \$2.6 billion as of June 30, 2016.

With ten branches throughout Puerto Rico, AEELA employs said money (both savings and dividends) to provide competitive financial and insurance services to its membership, such as the following:

1. Personal Loans (various types)
2. Credit Cards
3. Mortgages Loans
4. Individual Retirement Accounts (IRA)

5. Life Insurance
6. Scholarship Programs
7. Other Services and Benefits

As of June 30, 2016, the Association's Savings and Capitalized Dividends Fund amounts to approximately \$2.2 billion. All loans are offered at a 7% APR. As a general rule, the amount a member can borrow depends on his/her total savings and how many years he/she has worked for the government (the "allowed amount"). AEELA's annual earnings are divided among all of its members, and those earnings ("dividends") are also taken into account for calculating the allowed amount.

AEELA offers various types of personal loans:

- a. **Regular Loan** – Each member has the right to apply for this loan and obtain as much as the entire allowed amount. The member can renew the loan within a year. Many do so, because the allowed amount increases as their savings continue to grow and they have worked at the government for a longer time.
- b. **Appliances and Services Loan** – It is intended for the member who wishes to purchase appliances or request services to companies in an agreement with AEELA. Must stay within the allowed amount.
- c. **Emergency Loan** – The member receives an extra \$1,000 over the allowed amount along with a regular loan or separately. Monthly

payments are not deducted immediately. It is paid back when renewing the regular loan.

- d. **Playa Santa Vacation Center Loan** - Exclusively for members with reservations for AEELA's vacation center.
- e. **Disasters Loan** – The member will receive \$1,000 if he/she has suffered a property loss or damages due to a natural disaster. The member must present a certificate from the emergency management agencies. If a second natural disaster affects the member's property within the same year, they will be granted a second loan for the amount of \$500. Monthly payments are not deducted immediately. It is paid back when renewing the regular loan.
- f. **Car Insurance Loan** – It is intended for the member who wishes to pay for car insurance directly to car insurance companies previously approved by AEELA.
- g. **IRA Loan** – Exclusively designed for opening an IRA with AEELA.
- h. **Loan Amount Increase** – If the member does not apply for his/her entire allowed amount, he/she can apply for the remaining amount up to two times within a year.
- i. **Loan Renewal** – Can only be made every 12 months.

Once the member retires, ceases working for the government or passes away, all savings and dividends must be returned to him/her or his/her

family, after paying off any existing debts. If any outstanding balance remains, the case is referred to AEELA's Collections Department.

A member who retires from the government is able to remain enrolled in AEELA, either by continuing to save, by being insured, or both.

III. POWERS AND AUTHORITIES

Among the powers and authorities the Association possesses in order to achieve its purposes, are the following:

- To draw up and approve its annual budget. The Association's operating budget shall not exceed twenty-five percent (25%) of the total income earned in the preceding fiscal year.
- To approve annual financial statements and set aside, for reserve funds, any amounts as are necessary to ensure the proper operation and financial stability of the institution.
- To approve, amend, or repeal its bylaws.
- To delegate to the Association's Executive Director any functions as are necessary to ensure the proper operation and financial stability of the institution in accordance with the purposes of Act No. 9-2013. The Executive Director, the chief executive officer of the Association, shall be appointed by the Executive Committee, and said appointment shall be ratified by the Assembly of Delegates.
- To adopt, use and alter a seal of which judicial notice shall be taken.

- To conduct transactions to acquire and own property by any lawful means including, but not limited to, the following: purchase, option to purchase, installment purchase, public auction, lease, legacy, bequest, assignment, exchange, and donation; to retain, preserve, or use any real or personal property including, but not limited to, securities and other personal property or any interest thereon deemed necessary or convenient to fulfill the Association's purposes , when such transactions are fully justified and in the interest of the Association.
- To invest and reinvest its liquid assets available for investment in excess of the cash that could be needed for its current operation. This power shall be exercised pursuant to the investment policy approved by the Assembly of Delegates, which shall be consistent with the provisions of Act No. 9-2013.
- To obtain funds on its mortgage loans or equities or any other of its securities, or otherwise negotiate with them, even selling or pledging them when convenient, in order to broaden, improve, and extend the services that the Association provides to its members or the Association's financial situation. To create, with the approval of the Assembly of Delegates, nonprofit corporations under Act No. 164-2009, as amended, known as the "General Corporations Act," if the service intended to be provided cannot be incorporated under the

Association's structure or if it is convenient to set it up apart. All the mechanisms provided by Act No. 9-2013 shall be employed to secure the Association's funds when creating said corporations. The members of the Board of Directors of these corporations shall be members of the Association's Assembly of Delegates. The interest accrued by said mortgage loans or equities, or any other present or future securities, transferred to third parties in order to raise funds, as provided by Act No. 9-2013, shall be exempt from taxation in the Commonwealth of Puerto Rico.

- To alienate, sell, encumber, exchange, convey, provide options to purchase, sell in installments, lease or otherwise dispose of its property. In addition, it has the power to donate its property when it has been removed from inventory or it can be disposed of for being considered dispensable or obsolete.
- To borrow money and guarantee repayment thereof and interest thereon as it suits the Association best. To do so, it may mortgage, pledge, encumber, or otherwise alienate the Association's properties.
- To accept donations or contributions from individuals and institutions, as well as from municipal governments, the Commonwealth government, and the Government of the United States of America, to use or match with its own funds for the development of projects or facilities for the benefit of its members and the public in general.

- To develop special activities, programs, or projects for the benefit of its membership, which may be accessible to the general public insofar as it contributes to achieve its financial viability and it is thus approved by the Assembly of Delegates.
- To borrow from any financial institution, from the Commonwealth of Puerto Rico or from the federal government of the United States of America, or through the direct placement of debt, securing said debt with the Association's assets. The interest accrued by said obligations shall be exempt from taxation in the Commonwealth of Puerto Rico.
- To establish all types of trusts, with broad powers and authorities to offer members variable or indexed yields investment instruments, with mutual funds and supplementary pension plans, among others.
- To enter into collaboration agreements with other entities and organizations that work for the social and financial well-being of public employees.

IV. INVESTMENT RULES

In order for the Association to make the wide variety of investments authorized by law, specialized professional services shall be hired as are necessary, including consultants and fund

managers. The Assembly of Delegates shall adopt regulations for the management of the investments authorized by law.

V. VENTURE CAPITAL FUNDS, FINANCIAL INSTRUMENTS AND IMPACT INVESTMENTS

In accordance with Section 10 of Act No. 9-2013 (Policy on Liquid Assets Available for Investment), AEELA may invest, among others, in the following:

1. VENTURE CAPITAL FUNDS

The Association may invest in venture capital funds, in young companies, growing companies, high-growth or high-risk companies and the equivalent thereof.

In any case, the Association may not control more than five percent (5%) of the value of the shares issued by the companies or funds, provided that the sums devoted to this type of investment do not exceed seven percent (7%) of the total liquid assets available for investment. The return expectations for such investment shall be equal to or higher than those of other types of investment. The Association shall give priority to investments in Puerto Rico.

2. FINANCIAL INSTRUMENTS

The Assembly of Delegates may authorize the Executive Committee to employ financial instruments such as mutual fund shares, options contracts, futures, security futures, and

currency hedging. However, the amount of assets for these risk-reduction transactions shall not exceed five percent (5%) of its total liquid assets available for investment. If the extent of risk requires exceeding said limit to responsibly reduce the risk of a transaction, the Association shall not authorize such transaction.

3. *IMPACT INVESTMENTS*

Since the year 2000, AEELA has committed to support local Puerto Rico money management firms through its investment portfolio. While maintaining prudent diversification requirements and fiduciary responsibility to its members/stakeholders, AEELA is aware that providing opportunities to local money management and capital market players is an important part of trying to improve Puerto Rico's financial industry.

Such efforts help develop local talent and employment, as well as the efficient deployment of capital in our island. As a result, AEELA has allocated a portion of its investment portfolio to local money managers and private equity funds. During the last few years, as the Puerto Rican crisis deepened and its local capital markets collapsed, AEELA has used local money management firms with good results.

In addition in accordance with Act No. 9-2013, the Association created, in 2015, an “Puerto Rico Emerging Businesses and Managers Program”. AEELA is in the process of allocating \$15 to \$20 million to private equity funds, hedge funds, and mutual funds incorporated in Puerto Rico. Some of these local firms invest in non-Puerto Rico assets, but they are owned by Puerto Rico residents and hire and develop the island's human resources. The majority of the program, however, has a significant private equity component from Puerto Rico, as AEELA's member's savings are redirected to capital needs in the agricultural, lending, tourism, real estate, service, and industrial sectors, among others.

In its efforts to improve Puerto Rico's economic situation, AEELA is using local private talent to try to identify local investment opportunities, while maintaining good diversification and risk controls.

VI. NET PROFITS AND ANNUAL DIVIDENDS

The net profit derived by the Association, after deducting its administrative expenses and the authorized reserves, as well as any other amount that the Assembly of Delegates determines to employ for any undertaking or transaction for the benefit of its members, is credited annually as dividends to the accounts of those members who contribute to the Association's Savings and

Loans Fund in proportion to their savings balance at the end of the fiscal year. These dividends are paid, along with the savings, to each member upon dismissal or resignation, or, in case of death, to his/her legal heirs.

VII. PRESENTATION OF FINANCIAL STATEMENTS OF THE ASSOCIATION

At the end of each fiscal year, the Association prepares and publishes its financial statements, which are duly audited by a certified public accountant or a firm of certified public accountants licensed to practice their profession in the Commonwealth of Puerto Rico. The audit is done in accordance with the generally accepted auditing principles. The statements are also published on the Internet in order to inform the Association's members.

Additional information is available in our web page www.aeela.com.



Pablo Crespo Claudio
Executive Director