Comprehensive Annual Financial Report

As of and for the year ended June 30, 2010

Government Development Bank for Puerto Rico

(A component unit of the Commonwealth of Puerto Rico)

2010

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Prepared by:
Comptrollership Area

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A Celebration of Excellence: A Renewed Commitment to Values Government Development Bank for Puerto Rico

Our Mission Statement

Since its inception in 1942, the Government Development Bank for Puerto Rico (GDB) has led the way in safeguarding the fiscal stability of the Commonwealth of Puerto Rico and promoting its competitiveness in the world economy, thus, transforming the Island's economy and fostering the social and economic well-being of the Puerto Rican people.

In pursuing this goal, the GDB acts as bank, fiscal agent and financial advisor to the Commonwealth, its agencies, public corporations, instrumentalities, and municipalities. GDB's actions and decisions are governed by the highest ethical standards and guided by a continued commitment to service and quality, as well as to the professional development of its employees.

The Bank has renewed its quest for innovation and the growing productivity of all sectors of the Puerto Rican economy, while regaining its status as a financially solid and highly capitalized banking institution.

At GDB, we are heirs to a long tradition of distinguished public service. It is a tradition based on the premise that the government can and must work for the people.

Our Core Values

The GDB's core values comprise several fundamental elements: a steadfast commitment to promoting socio-economic development; a dedication to fostering innovation and nurturing an entrepreneurial spirit; complete support of collaboration and teamwork throughout the public and private-sectors; and a pledge to uphold the highest standards of integrity, honesty and professionalism.

Strategic Objectives

The Government Development Bank for Puerto Rico's strategic objectives are:

1. To strengthen GDB's financial condition.
2. To achieve breakthrough improvements in the effectiveness of the fiscal agent responsibility program.
3. To facilitate the implementation of government reform initiatives.
4. To create banking products and services tailored to our clients' needs.
5. To implement an organizational transformation process.

INTRODUCTORY SECTION

GOVERNMENT DEVELOPMENT BANK
FOR PUERTO RICO

(A COMPONENT UNIT OF THE
COMMONWEALTH OF PUERTO RICO)

2010

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
GDB
COMMONWEALTH OF PUERTO RICO

PO Box 42001
San Juan, PR 00940-2001
Telephone (787) 722-2525

December 15, 2010

Honorable Luis G. Fortuño
Governor of Puerto Rico

Board of Directors of the Government
Development Bank for Puerto Rico

Dear Governor and Board of Directors:

I am pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Government Development Bank for Puerto Rico ("the "Bank") for the year ended June 30, 2010.

This CAFR was prepared in accordance with standards of Government Finance Officers Association ("GFOA") for the Certificate of Achievement for Excellence in Financial Reporting. To receive this award, a governmental entity must publish an easily readable and efficiently organized comprehensive financial report. In fiscal year 2009, the Bank received its 16th consecutive Certificate of Achievement for Excellence in Financial Reporting (the "Certificate") from the GFOA. This Certificate is the highest form of recognition in government accounting and financial reporting, and its attainment represents a significant accomplishment by a government entity and its management team. A Certificate of Achievement is valid for a period of one year only. We believe this CAFR meets the Certificate program requirements and have submitted it to the GFOA for their consideration.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the Management. The Management believes that the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and the changes in the financial position of the Bank. All disclosures necessary to enable the reader to gain an understanding of the Bank's activities have been included.

INTERNAL CONTROLS

The Bank is responsible for establishing and maintaining internal controls to ensure that the assets of the government are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by the management.

THE REPORTING ENTITY

The Bank is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act 252 of May 13, 1942, "for the purpose of carrying out the complete development of Puerto Rico's human and economic resources." The Bank did not acquire its final form until the enactment of Act 272 of May 15, 1945, which authorized it to act as fiscal agent and financial advisor of the Commonwealth and its agencies; and Act 17 of September 23, 1948, which includes the charter of the Bank and established all of its duties and powers.

The charter of the Bank provides for its perpetual existence, and no amendment to the charter, or to any other law of Puerto Rico, shall impair any outstanding obligations or commitments of the Bank. The Bank is exempt from taxation in Puerto Rico. The Bank's charter, as amended, allows the Bank to invest in securities issued by any corporate entity engaged in the economic development of Puerto Rico, as well as to guarantee loans and other obligations incurred by public and private entities.

The Bank's primary mission is to safeguard the fiscal stability of the Commonwealth of Puerto Rico and devise strategies to further its economic development. As such, we act as bank, fiscal agent and financial advisor for the Commonwealth of Puerto Rico, and its instrumentalities.

To fulfill its mission, the Bank has the following specialized component units: Puerto Rico Housing Finance Authority (the "Housing Finance Authority"), Puerto Rico Tourism Development Fund (the "Tourism Development Fund"), Puerto Rico Development Fund (the "Development Fund"), Puerto Rico Public Finance Corporation (the "Public Finance Corporation"), Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), José M. Berrocal Financial and Economics Institute (the "JMB Institute"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation").

CONTINUING THE ROAD TO FISCAL AND ECONOMIC RECOVERY

It has been almost two years since the current administration took over the Commonwealth of Puerto Rico and began the implementation of the Fiscal Stabilization and Economic Reconstruction Plan. Details of these plans follow:

Fiscal Stabilization Plan - The Fiscal Plan has three main objectives: (i) stabilize the short-term fiscal situation, (ii) safeguard and strengthen the Commonwealth's credit rating, and (iii) achieve budgetary balance by fiscal year 2013. The Fiscal Plan, which is generally contained in Act No. 7 of March 9, 2009 ("Act 7"), includes operating expense-reduction measures, tax revenue enforcement measures, temporary tax increases, and financial measures. The Fiscal Plan is expected to provide more fiscal stability, thereby safeguarding and strengthening Puerto Rico's credit rating. The administration further expects that the resulting fiscal structure will be sustainable and conducive to economic growth and development.

Economic Reconstruction Plan - To balance the impact of the Fiscal Plan, the administration has developed and is implementing an economic reconstruction program to stimulate growth in the short term and lay the foundation for long term economic development. In addition, the administration has developed a comprehensive, long term, economic development program aimed at improving Puerto Rico's overall global relevance, competitiveness, and business environment, and increasing private-sector capital formation and participation in the economy known as the Strategic Model for the New Economy (the "New Economic Plan").

Puerto Rico has structural competitive advantages in several areas, such as pharmaceutical and biotechnology manufacturing. These advantages provide opportunities to further economic activities in manufacturing, science and technology, tourism, renewable energy, trade, and professional services. The specific initiatives of the New Economic Plan are designed to promote sustainable economic growth while diversifying Puerto Rico's economic base.

The results of these plans, so far, are as follows:

- Budgeted deficit as a percentage of revenues for fiscal year 2010-11 is 10.9% compared to 45.9% in fiscal year 2008-09.
- Government payroll has been reduced by $866 million or an unprecedented 17% of total payroll.
- Net revenues for fiscal year 2010 were $18 million above the previous fiscal year and $21 million above estimates.
- Sales and use tax collections since January 2010 are above same period collections from previous year.
- Improved cash position.
- Government expenses are down 19% since fiscal year 2008-09 when compared to the approved fiscal year 2010-11 budget.
- Economic Activity Index (EAI) reflected five consecutive months of recovery from February 2010 to June 2010, and in October 2010 the EAI's progress registered the largest month-to-month uptick since October 2006.
- Revised Standard's & Poor's Rating on the outlook on the general obligation debt 'BBB-' rating on the Commonwealth of Puerto Rico to positive from stable.

TAX REFORM

A new tax revenue code bill was recently introduced in the Legislature of the Commonwealth of Puerto Rico. The bill contains a series of tax relief measures that among other things reduce the maximum corporate and individual income tax rates. Some of the highlights of the tax reform follow:

- A temporary excise tax on purchases made by certain affiliates of manufacturing companies conducting business in Puerto Rico. In most instances the excise tax will be applicable to affiliates of many of the multinational companies that are beneficiaries of specific tax agreements. The excise tax will begin in 2011 at a rate of 4%, will gradually decrease to 1% in 2016 and will be completely phased out thereafter. It is estimated that the excise tax could generate $1.4 billion in the first full year of implementation.

- Tax relief for individuals and corporations. The tax reform reduces the maximum corporate tax rate from 41% to 30%, as well as several tax credits and deductions. Commonwealth officials expect that the effective corporate tax rate will fall from 34% to about 26% in 2011. In addition, the tax reform expands the tax brackets and provides an increasing level of tax relief for taxpayers at the low end of the income scale, to eventually reach a 0% personal income tax for taxpayers with $20,000 or less of taxable income. The implementation of the gradual expansion of tax exemptions starting in 2014, however, is subject to the achievement of specific revenue and expenditure targets and Gross Domestic Product (GDP) growth. The reforms also include controls and certain limitations in the mortgage interest deduction, more stringent tax collection mechanisms, and penalties for tax evasion.

It is expected that the tax reform measures will represent a net gain in recurring revenues or approximately $35 million in fiscal 2011, $203 million in fiscal 2012 and $105 million in fiscal 2013.

RETIREMENT SYSTEM REFORM

The Employees Retirement System (ERS) is a trust created in 1951 to provide retirement and disability annuities, death benefits, and loans to Puerto Rico's public employees. As of June 30, 2010, the total numbers of participants, including active participants and retirees, in the ERS were approximately 247,000. The ERS administers two separate retirement plans: a defined benefit plan, which closed to new members on December 31, 1999, and a defined contribution plan, available to employees who entered the system on or after January 1, 2000. System benefits are financed by contributions made by employers and employees and investment income.

According to the most recent actuarial valuation of the ERS, as of June 30, 2009, the total pension benefit obligation of the system was approximately $19 billion. The unfunded pension benefit obligation of the ERS as of the same date was approximately \$17 billion, representing a funding ratio of 9.8% This critical situation can be directly attributed to historically inadequate employer and employees contributions and the enactment of benefit arrangements that were not funded. The ERS is currently facing a \$24 billion dollar funding gap and is expected to reach insolvency within the next 8 to 10 years.

A special commission appointed by Governor Fortuño recently submitted a set of recommendations to improve the funding status of the Commonwealth's defined benefit system. The commission's recommendations include: (1) benefit reductions, (2) contribution increases, (3) post employment benefit reductions and (4) ERS cash flow measures. In addition, the legislature approved Act 70 of 2010, which provides incentives for early retirements with a lower percentage of final pay for certain qualified employees. The administration also plans to present a comprehensive set of pension reforms in 2011.

THE BANK'S ROLE IN THE RECOVERY

As fiscal agent and advisor to the government, the Bank's participation in devising appropriate strategies has been, and continues to be, instrumental. Together with other key governmental units, the Bank has been overseeing the ongoing development of the Fiscal Stabilization and Economic Reconstruction Plans to assure their success. Maintaining the fiscal health of the Bank has been another key factor in the recovery.

Despite the continued demands on its financial resources, the Bank continues to improve its liquidity and has maintained a strong capital ratio of 18.1% of total assets. During the year, the Bank accessed the capital markets with several bond issuances which helped to lower the cost of funds and provided a more level schedule of maturities for following years.

The Bank continues to provide financing to the Commonwealth of Puerto Rico instrumentalities in particular to the public corporations while they transition to a new model of service offering through various initiatives of public-private partnerships. The Public-Private Partnership Authority, an affiliate of the Bank, is the governmental entity responsible for implementing public policy regarding public-private partnerships, determining the partnerships' functions and services as well as the installations where they will be established, performing studies of desirability and convenience for proposed partnerships, identifying and inviting candidates for partnerships, evaluating proposals for partnerships, negotiating the partnerships contracts and supervising the partnerships once they are operating. Through the establishment of partnerships it is expected that the public corporations will receive upfront payments that will enable them to repay debt outstanding, consequently improving the fiscal health of such corporations and accordingly the Bank's.

For a discussion of the results of the operations of the Bank, please refer to the Management's Discussion and Analysis on pages 13 to 27.

ECONOMIC TRENDS

Puerto Rico's real Gross National Product (GNP) growth showed a slowdown during fiscal year 2006, which translated into a recession from fiscal years 2007 to 2010. While the economy of the Island is affected by changes in the United States economy, our relative higher dependence on fuel oil and the long-term effect changes in the manufacturing sector contributed negatively to our economic performance in those years. In addition, several other factors are affecting the prospective economic performance for fiscal year 2011.

Puerto Rico's local economy suffered a sustained increase in oil prices from fiscal year 2003 to fiscal year 2008. The largest increases in the average price of Puerto Rico oil net imports occurred during fiscal years 2005 and 2006, those resumed in fiscal year 2008. This factor alone has significantly drained domestic income to fulfill our energy requirements. There has been a significant reduction in the average oil price in fiscal year 2009, although during fiscal year 2010 the West Texas Intermediate (WTI) oil price increased again, but at a much lower rate. During the first quarter of fiscal year 2011 the WTI oil price has averaged slightly above the average of fiscal year 2010.

Several key indicators show a continuation of the general economic downturn in fiscal year 2010. The Household Survey, which showed positive growth rates in total employment from fiscal year 2002 to fiscal year 2006, started to reflect weaknesses during fiscal year 2007, when it increased by only 0.8%, and for fiscal years 2008 and 2009 exhibited significant drops of 3.6% and 4.1%, respectively. In fiscal year 2010 this survey showed a further decline of 5.6%. Moreover, the Payroll Survey, which showed positive growth rates from fiscal year 2003 to fiscal year 2005, stagnated in fiscal year 2006 and declined by 1.5%, 1.2%, and by 2.7% in fiscal years 2007, 2008, and 2009. In fiscal year 2010 payroll employment registered a further reduction of 5.1%. Total employment according to the Household Survey has decreased from 1.144 million in fiscal year 2001 to 1.102 million in fiscal year 2010. On the other hand, according to the Establishment Survey, payroll employment has diminished from 1.021 million in fiscal year 2001 to 942 thousand in fiscal year 2010. Average unemployment rate increased from 10.4% in fiscal year 2001 to 16.0% in fiscal 2010.

Puerto Rico has a diversified economy with the manufacturing and service sectors as the major participants. In terms of gross domestic product, manufacturing is the largest segment in the economy of Puerto Rico. According to the Planning Board preliminary figures, in fiscal year 2009, manufacturing generated $43.5 billion, or 45.5%, of the gross domestic product, as compared with fiscal year 2008 when it generated $40.5 billion, or 43.6%, representing a growth rate of 7.4% in nominal terms. In spite of these nominal increases in output, manufacturing employment continued its downward path which started in fiscal 1997, after the repeal of Section 936. During fiscal year 2010, employment in the manufacturing sector accounted for 9.6% of total non-agricultural payroll employment. On the other hand, manufacturing in Puerto Rico has changed with respect to the earlier phases of Puerto Rico's industrial development program. Over the last three decades, industrial development has evolved to become more capital intensive and more dependent on skilled labor. The heavy investment in pharmaceutical, biotechnology, scientific instruments, and the medical product industries in Puerto Rico best exemplify this favorable emphasis over the last decade.

In contrast to the manufacturing picture, the economy of Puerto Rico experienced a moderate growth in the services sector (including finance, insurance, real estate, wholesale, retail trade, transportation, communications, public utilities, and other services) in terms of both income and employment over the past decade, showing increases in their employment shares. Accordingly, the development of the services sector maintains a strong interaction with manufacturing and construction. Nevertheless, the current recession has affected particularly the construction sector, which, consequently, has impacted other sectors.

During fiscal year 2009, the services sector generated \$41.0 billion, or 42.9%, of Puerto Rico's gross domestic product and it encompasses the greatest amount of the employment array. Wholesale and retail trade, finance, insurance, real estate, hotel and related services advanced in nominal terms from 2000 to 2009 period, as measured by gross domestic product. The gross domestic product in wholesale and retail trade increased from \$6.1 billion in fiscal 2000 to \$7.5 billion in fiscal 2009. In finance, insurance and real estate, gross domestic product increased from \$10.5 billion in fiscal 2000 to \$18.2 billion in fiscal 2009.

Just as notable in financial significance, the construction industry experienced substantial real growth in the second half of the 90's. Nevertheless, from fiscal year 2001 to fiscal year 2009 nominal construction investment has been diminishing considerably, particularly during the fiscal year 2009, reaching the level of \$4.4 billion. Furthermore, private construction investment, which represented 47.1% of total construction investment, declined in nominal terms by 22.7% in fiscal year 2009. According to the Household Survey, the average employment in this sector was 58 thousands, in fiscal year 2010.

Finally, tourism continues growing at reasonable rates, although it represents a relatively small segment within the economy. More than 4.7 million visitors spent over \$3.4 billion in Puerto Rico in fiscal year 2009. As of fiscal year 2009, the daily average of available rooms was 11,010. San Juan has become the fourth largest homeport for cruise ships in North America. Twenty-four U.S. and international airlines offer scheduled service to and from San Juan, and a major airline uses San Juan as a hub for its intra-Caribbean operations. This reflects the importance of Puerto Rico as a tourist destination and as a transportation hub in the Caribbean.

ECONOMIC PERSPECTIVE

The Puerto Rico Planning Board issued in March 2010 the gross product forecast revision for fiscal years 2010 and 2011. It anticipates a decline in real GNP of 3.6% for fiscal year

2010 and an increase of 0.4% for fiscal year 2011 for the baseline scenario. Given the behavior of monthly economic indicators for the first quarter of fiscal year 2011, it is likely to observe lower growth rates than originally expected during fiscal year 2011, and the economy could start to turn to positive growth rates during fiscal year 2012.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire Bank staff and the particular commitment of the Accounting and Finance Department personnel.

We are very grateful for your support.

Sincerely,

Jesús F. Méndez Rodríguez
Executive Vice President
Administration, Operations & Comptrollership

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Government Development Bank for Puerto Rico

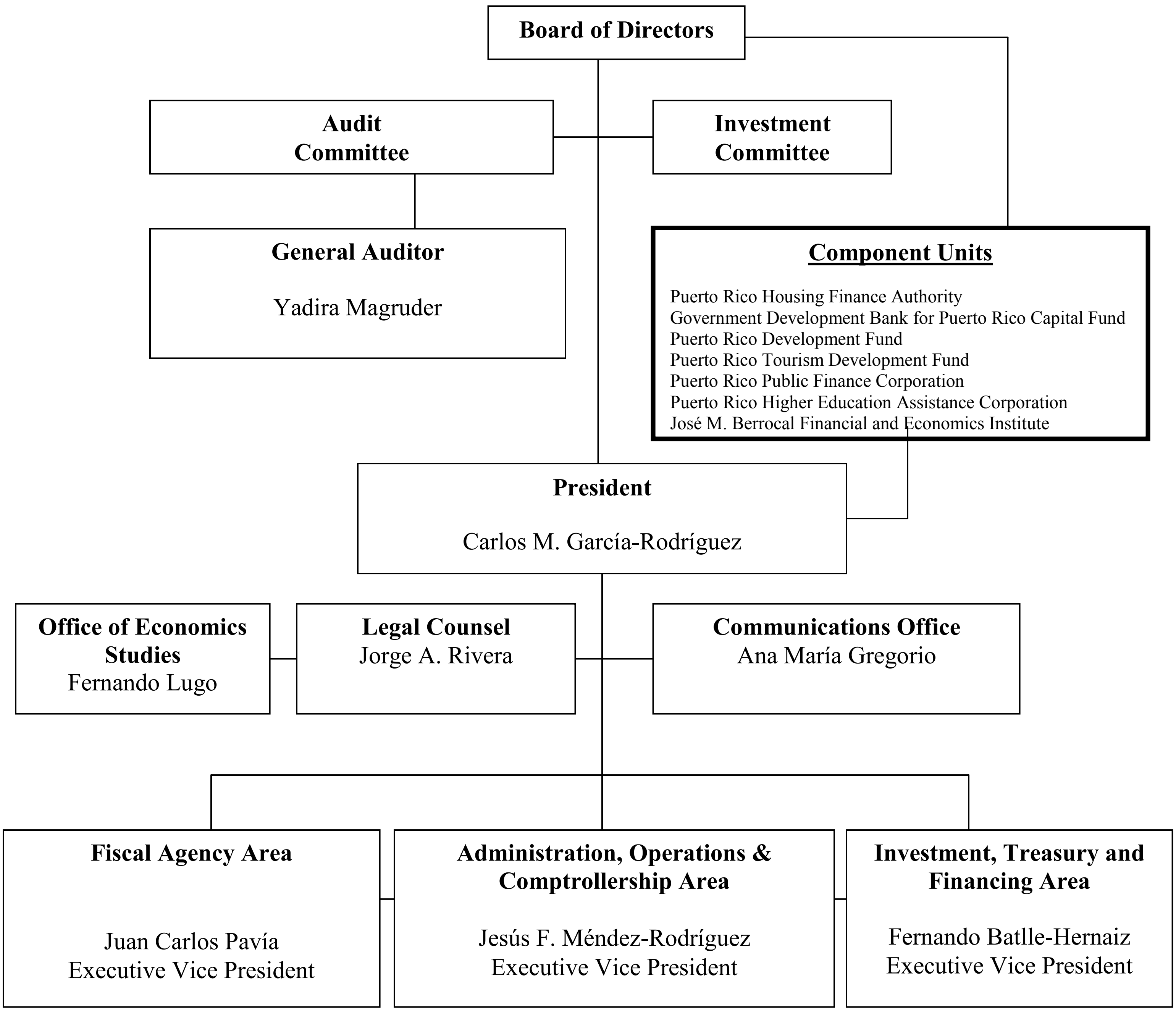
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
Organizational Chart and Principal Officers
June 30, 2010



Financial Section

Government Development Bank
for Puerto Rico
(A component unit of the
Commonwealth of Puerto Rico)

2010

Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Avenue - Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 756 6340
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Government Development Bank for Puerto Rico:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2010, which collectively comprise the Bank's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico, as of June 30, 2010, and the respective changes in financial position and respective cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 2 and 5 to the financial statements, loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $4,979,070,000 or 35.4% of the Bank's total assets as of June 30, 2010. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth of Puerto Rico, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past eight years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

The management's discussion and analysis on pages 13 to 27 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Government Development Bank for Puerto Rico's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Bank's respective financial statements that collectively comprise the Bank's basic financial statements. The introductory section, combining fund financial statements, and statistical section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This additional supplementary information is the responsibility of the Bank's management. The combining fund financial statement information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in our audit of the basic financial statements and, accordingly, we do not express an opinion on them.

Deloitte & Touche LLP

November 5, 2010

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This section presents a narrative overview and analysis of the financial performance of Government Development Bank for Puerto Rico (the ―Bank" or ―GDB") as of and for the year ended June 30, 2010. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets government wide at June 30, 2010 amounted to $14,048 million for an increase of $9 million or 0.07% from the $14,039 million at June 30, 2009. Liabilities dropped by 0.7% or $84 million to $11,504 million from $11,588 million.

- Net assets government wide grew to $2,544.0 million from $2,450.7 million at June 30, 2009. The increase in net assets of $93.3 million in fiscal year 2010 is composed of $123.7 million from business-type activities offset by an excess of expenses and transfers over revenues of $30.4 million from governmental activities. Net assets to total assets increased to 18.1% in 2010 from 17.5% in 2009.

- The operating income of the GDB Operating Fund increased from $32.2 million in 2009 to $67.6 million or $35.4 million in fiscal year 2010. That rise represented an improvement of 110% from the previous year.

- The Bank issued approximately $1,356 million of Senior Notes 2009 Series C and D consisting of $1,013.2 million of Senior Notes 2009 Series C and $342.9 million of Senior Notes 2009 Series D. The Bank also remarketed $267 million of its previously Adjustable Refunding Bonds, Series 1985, which were converted to fixed-rate bonds, at a 4.75% rate. The Bank used a portion of the proceeds of these issuances to repay previously issued notes with higher interest rates. Savings in cash flow requirements were approximately $4 million.

- The Bank implemented a pricing strategy for new and existing loans in order to reflect market interest rates and improve net interest margin. Public sector loans with interest rates mostly ranging from 3.65% to 5% were adjusted to market rates with effective date of October 1, 2009, according to a resolution of the Bank's board of directors. Interest income on loans in the GDB Operating Fund amounted to $326.4 million in 2010, an increase of $91 million over the prior year.

- The Bank collected approximately $477.5 million in principal and $164.1 million in interest on loans to the public sector from bond issuances made by the Puerto Rico Sales Tax Financing Corporation (COFINA for its acronym in Spanish). The Bank also collected $172 million and related interest on bond anticipation notes issued by COFINA and purchased by the Bank in fiscal year 2010, from a bond issuance of COFINA. COFINA has been the financing anchor of the fiscal stabilization plan of the Commonwealth of Puerto Rico (the Commonwealth); issuing a series of revenue bonds payable from sales and use tax collections transferred from the Commonwealth.

- Included in noninterest expenses of the Bank are three nonrecurring items aggregating $17.7 million as follows: (1) $3.6 million related to employees voluntary and involuntary termination of services, (2) $11.9 million in write downs of real estate available for sale to give effect to the most recent appraisals and market conditions, and (3) $2.2 million standby bond purchase agreement termination fee linked to the adjustable refunding bonds.

- The Bank received a contribution of approximately $1.1 million related to Act No. 3. This Act authorized the Puerto Rico Infrastructure Financing Authority, an affiliate of the Bank, to sell securities deposited at a corpus account and transfer a portion of the proceeds to the Bank.

- The Bank approved a recapitalization of the Puerto Rico Tourism Development Fund (TDF) by transferring certain assets aggregating $72 million from the Government Development Bank for Puerto Rico Capital Fund (CF) to TDF. Both entities are component units of the Bank. Although these internal transactions are offset at the Bank reporting entity level, they had the effect of increasing and decreasing the change in net assets of TDF and CF, respectively, in their respective major fund columns. In connection with this transaction, the Bank loaned $50 million to TDF to make an investment in preferred interests of a private entity engaged in the tourism industry. The assets received by TDF in the transfer will serve as additional collateral and source of repayment for the Bank's loan.

- The Commonwealth of Puerto Rico made operating contributions to the Puerto Rico Housing Finance Authority (the Housing Finance Authority) and TDF, aggregating $59 million. These contributions to these blended component units of the Bank provided funds for the execution of the various affordable housing programs and to continue promoting the hotel and tourism industry.

2. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is required supplementary information to the basic financial statements and is intended to serve as introduction to the basic financial statements of the Bank. The basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the basic financial statements.

Government-Wide Financial Statements — The government-wide financial statements are designed to provide readers with a broad overview of the Bank's finances, in a manner similar to a private-sector business. The statement of net assets provides information on the Bank's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Bank is improving or deteriorating. The statement of activities presents information on how the Bank's net assets changed during the reporting period. Changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements — A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Bank's funds are divided in two categories: governmental funds and enterprise funds.

- *Governmental Funds* — Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of financial decisions related to the Bank's governmental activities. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Enterprise Funds* — Enterprise funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The enterprise fund financial statements of the Bank provide separate information on the business-type activities of the Bank's blended component units.

Notes to the Basic Financial Statements — The notes provide additional information that is essential to a full understanding of the data provided in the government-wide financial statements and the fund financial statements.

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total assets and total liabilities of the Bank at June 30, 2010 amounted to $14,048 million and $11,504 million, respectively, for net assets of $2,544 million or 18.1% of total assets. Within assets, the investment portfolio shows the most significant growth of $1,845 million or 42.2% over fiscal year 2009 balance of $4,374 million. The proportion of investments to total assets increased to 44.3% in 2010 from 31.2% in 2009. On the other hand, federal funds sold and deposits placed with banks decreased by approximately $1 billion each or 75.7% and 96.0%, respectively, when compared to the previous year.

Loan portfolio of $6,966 million at June 30, 2010 shows an increase of 4.2% when compared to prior year's ending balance of $6,685 million. Loans as percentage of total assets grew 2.0% from 47.6% in fiscal year 2009 to 49.6% in fiscal year 2010.

The Bank issued several note series and bonds during fiscal year 2010 for a net increase of $1,048 million in this line item. The Bank has primarily used the proceeds from these notes and bonds to increase its investment portfolio, making loans to the Commonwealth, its public corporations and municipalities, and repaying certain higher interest rate debt. Also, the Bank increased its funding from securities sold under agreements to repurchase by 23.3% over 2009 balance.

Out of the $2,544.0 million in net assets, $2,178.3 million or 85.6% is unrestricted, $288.0 million or 11.3% is restricted for use in housing programs, and the remaining $77.7 million or 3.1% is invested in capital assets, and restricted for the mortgage loan insurance program. Governmental and business-type activities are discussed separately in the following subsections.

Governmental Activities — Total assets of governmental activities amounted to $130.9 million at June 30, 2010, before $80.3 million in net balances due to business-type activities. Total liabilities amounted to $52.2 million, for a net deficit of $1.6 million. Net deficit has been broken down into the amounts restricted for affordable housing programs, $52.9 million, and the unrestricted deficit of $54.5 million, which means that the restriction on the use of available assets will not allow the Bank to satisfy its existing liabilities from those assets, and therefore that it will depend on future appropriations for the repayment of part of its obligations.

Condensed financial information on assets, liabilities, and net assets of governmental activities as of June 30, 2010 and 2009 is shown below (amounts in thousands):

	June 30,		Change	
	2010	2009	Amount	Percent
Assets:				
Restricted:				
Cash and due from banks, and deposits placed with banks	$ 7,527	$ 28,720	$ (21,193)	(73.8)%
Investments and investment contracts	93,892	99,258	(5,366)	(5.4)%
Loans receivable — net	-	2,062	(2,062)	(100.0)%
Other assets	29,494	3,763	25,731	683.8%
Total assets before internal balances	130,913	133,803	(2,890)	(2.2)%
Internal balances	(80,287)	(85,221)	4,934	(5.8)%
Total assets	50,626	48,582	2,044	4.2%
Liabilities:				
Accounts payable and accrued liabilities	47,394	14,896	32,498	218.2%
Notes payable — due in more than one year	4,811	4,811	-	0.0%
Total liabilities	52,205	19,707	32,498	164.9%
Net assets (deficit):				
Restricted for debt service	-	29,079	(29,079)	(100.0)%
Restricted for affordable housing programs	52,933	4,534	48,399	1,067.5%
Unrestricted deficit	(54,512)	(4,738)	(49,774)	1,050.5%
Total net assets (deficit)	$ (1,579)	$ 28,875	$ (30,454)	(105.5)%

Investments and investment contracts amounted to $93.9 million and account for the majority of the assets held by governmental activities. These investments, together with cash and due from banks, and deposits placed with banks of $7.5 million are held to provide funds for the execution of the various affordable housing programs managed by the Housing Finance Authority. Other assets are composed principally of due from the HUD and ARRA federal programs, and from the Commonwealth. Accrued liabilities mainly consist of unpaid expenditures related to the ARRA funds and of subsidies payable on various housing programs.

Condensed financial information on expenses, program and general revenues, and changes in net assets of governmental activities for the years ended June 30, 2010 and 2009, is shown below (in thousands):

	Year Ended June 30, 2010		
	General Government	Housing Assistance Programs	Total
Expenses	$ 4,777	$ 250,787	$ 255,564
Program revenues:			
Charges for services — financing and investment		4,743	4,743
Operating grants and contributions	-	225,268	225,268
Net expenses	$ (4,777)	$ (20,776)	(25,553)
Transfers — net			(4,902)
Change in net assets			(30,455)
Net assets — beginning of year			28,876
Net assets (deficiency)— end of year			$ (1,579)

	Year Ended June 30, 2009		
	General Government	Housing Assistance Programs	Total
Expenses	$ 4,555	$ 177,085	$ 181,640
Program revenues:			
Charges for services — financing and investment		6,616	6,616
Operating grants and contributions	-	127,411	127,411
Net expenses	$ (4,555)	$ (43,058)	(47,613)
Transfers — net			(6,609)
Change in net assets			(54,222)
Net assets — beginning of year			83,098
Net assets — end of year			$ 28,876

4. GOVERNMENTAL FUND RESULTS

Increase in revenues was mainly due to the fact that $86.6 million in American Recovery and Reinvestment Act (ARRA) funds were recorded for expenditures incurred during fiscal year 2010. No ARRA funds were recorded in 2009. Increase in expenditures is mainly related to the $86.6 of ARRA funds expended, and $26.4 million of the new Closing Costs Assistance Program offset by a reduction of $14.8 million in subsidy expenditures mainly related to the Key for Your Home Program and Affordable Housing Mortgage Subsidy Programs. Also, expenditures of 2009 included a provision for uncollectible accounts of $25 million for the amount due from the Federal Emergency Management Agency under the New Secure Housing Program.

Following is an analysis of the financial position and results of operations of the Bank's major governmental funds:

HUD Programs — This fund accounts for the U.S. Housing Act Section 8 programs administered by the Housing Finance Authority under the authorization of the U.S. Department of Housing and Urban Development (HUD). Presently, the Housing Finance Authority operates four programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for low income markets. The expenditures of the HUD Programs fund increased $6 million from $119 million in 2009 to $125 million in 2010 as result of additional vouchers awarded when compared to the previous year.

ARRA Funds – This fund accounts for two federal programs established by ARRA. ARRA established a federal funding opportunity through two separate programs, the Section 1602, ―Cash Assistance in Lieu of Tax Credits" program called the Tax Credit Exchange Program (TCEP) and Tax Credit Assistance Program (TCAP). Both programs make stimulus package funding available to multi-family rental projects that meet the requirements of the Low Income Housing Tax Credits program (LIHTC). TCEP allows state housing tax credit allocating agencies to exchange a portion of the housing tax credits for cash grants. The cash grants can then be used by the allocating agencies to make ―subawards" to finance the construction or acquisition and rehabilitation of qualified low-income buildings. TCAP provides grant funding for capital investment in LIHTC projects through a formula based allocation to each state. The purpose of the TCAP funding is to assist in filling the funding gap resulting from the decline in equity pricing. The revenues and expenditures of ARRA funds amounted to $86.6 million each during the first year of this federal funding assistance.

Closing Costs Assistance Program - This fund accounts for the subsidy to eligible individuals or families for the purchase of an eligible principal residence. The subsidy consists of the reimbursement of origination and closing costs up to 5% of the selling price, which cannot exceed $300,000, of the eligible principal residence. The Authority finances this program with transfers from its operating and administrative fund and from appropriations from the Commonwealth. During the year ended June 30, 2010, the program received transfers of $21.2 million from the Housing Finance Authority's enterprise fund and an additional $10 million appropriation from the Commonwealth. During the year ended June 30, 2010, subsidy expenditures amounted to $26.4 million.

5. BUSINESS-TYPE ACTIVITIES

Condensed financial information on assets, liabilities, and net assets as of June 30, 2010 and 2009, is presented below (amounts in thousands):

	June 30,		Change	
	2010	2009	Amount	Percent
Assets:				
Cash and due from banks	$ 13,851	$ 23,623	$ (9,772)	(41.4)%
Federal funds sold	331,000	1,364,000	(1,033,000)	(75.7)%
Deposits placed with banks	38,853	1,086,366	(1,047,513)	(96.4)%
Investments and investment contracts	6,124,707	4,274,333	1,850,374	43.3%
Loans receivable — net	6,966,384	6,683,341	283,043	4.2%
Interest and other receivables	178,245	193,892	(15,647)	(8.1)%
Real estate available for sale	207,792	204,688	3,104	1.5%
Other assets	41,072	57,657	(16,585)	(28.8)%
Internal balances	80,287	85,221	(4,934)	(5.8)%
Capital assets	15,750	17,452	(1,702)	(9.8)%
Total assets	13,997,941	13,990,573	7,368	0.1%
Liabilities:				
Deposits:				
Demand	3,253,713	3,187,495	66,218	2.1%
Certificates of deposit	2,895,485	4,367,313	(1,471,828)	(33.7)%
Securities sold under agreements to repurchase	1,058,835	859,053	199,782	23.3%
Accrued interest payable	28,325	24,931	3,394	13.6%
Accounts payable, accrued liabilities, and other liabilities	98,038	86,315	11,723	13.6%
Certificates of indebtedness	11,800	11,800	-	0.0%
Bonds, notes, participation agreement and mortgage-backed certificates payable:				
Due in one year	226,219	136,679	89,540	65.5%
Due in more than one year	3,879,986	2,895,180	984,806	34.0%
Total liabilities	11,452,401	11,568,766	(116,365)	(1.0)%
Net assets:				
Invested in capital assets	15,750	17,452	(1,702)	(9.8)%
Restricted for:				
Mortgage loan insurance	61,899	58,600	3,299	5.6%
Affordable housing programs	230,895	173,211	57,684	33.3%
Other housing programs	4,183		4,183	4,183%
Unrestricted	2,232,813	2,172,544	60,269	2.8%
Total net assets	$ 2,545,540	$ 2,421,807	$ 123,733	5.1%

Federal Funds Sold and Deposits Placed with Banks — The Bank decreased its federal funds sold by $1,033 million, from $1,364 million at June 30, 2009 to $331 million at June 30, 2010, and its deposits placed with banks by 96.4%, from $1,086 million to $39 million. The Bank reduced the federal funds and deposits placed with banks in favor of higher rate short term investment securities.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to $6,124.7 million at June 30, 2010. This amount represents an increase of $1,850.4 million or 43.3% when compared to the prior year balance of $4,274.3 million. The investment portfolio has consisted primarily of fixed income securities with very high credit ratings, reflecting the Bank's prudent and conservative investment policies. The majority of the Bank's investment portfolio, which mainly consists of external investment pools fixed income securities, U.S sponsored agencies notes, mortgage and asset-backed securities and nonparticipating investment contracts, is invested in AAA to A-rated securities. The contractual maturities of the investments within one year represented approximately 79% of the investment securities portfolio at June 30, 2010. The average holding term of the investment portfolio within one year is not greater than 60 days, which provides high levels of liquidity.

The investment portfolio comprised 44% of the total assets of the Bank's business-type activities at June 30, 2010, up by 13% as compared to 31% at the close of fiscal year 2009. Within the investment securities portfolio, $1,539 million at June 30, 2010 and $1,693 million at June 30, 2009, were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable increased by $283.1 million, from the $6,683.3 million balance at June 30, 2009 to $6,966.4 million at June 30, 2010. The increase primarily arises from the Bank's basic role of providing financial support to the Commonwealth's public works, particularly in times of economic hardship, such as the prevailing circumstances in the Island and world-wide. To support the governmental efforts of improving and stimulating the Island's economy, the Bank finances the development and construction of infrastructure, housing projects, and hotels.

Loans to municipalities had a net increase of $291.8 million over prior year's balance. Some of these loans were possible with the improvement of the municipalities' debt margin capacity as a result of increases in the property and municipal sales taxes. Other increase was observed in the private sector line items of $73.1 million. These increases were offset by a decrease of $83.9 in loans to public corporations and agencies, mainly due to the collection of a loan with an outstanding balance of $101 million.

Private sector loans outstanding at June 30, 2010 and 2009 amounted to $530 million and $457 million, respectively, net of an allowance for loan losses and deferred origination fees of $85.0 million and $9.5 million at June 30, 2010, and $74 million and nil at June 30, 2009. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank. Refer to Note 5 for further information on loans.

During the year ended June 30, 2010, loan originations for and principal collected on other than housing program loans amounted to $3.2 billion and $2.9 billion, respectively.

Real Estate Available for Sale — Real estate available for sale includes several properties received in fiscal year 2009 in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. The current appraised value of these properties amounts to $117.6 million. Additional properties are being negotiated with the parties involved to satisfy this deficiency.

In the meantime, the Bank has recorded a receivable for this difference as permitted by the agreement with the transferor. Also, the Office of Management and Budget of the Commonwealth (―OMB”) included in the budget of the Commonwealth for fiscal year 2011 an appropriation of $5 million to assist the agencies involved in the transaction in repaying the accounts receivable of the Bank.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to $15.7 million at June 30, 2010, a decrease of $1.7 million from the prior year. Additions to capital assets during the year ended June 30, 2010 aggregated to $1.2 million principally in the information systems line item. Depreciation and amortization of $2.9 million was charged to operations during fiscal year 2010. Refer to Note 8 to the basic financial statements for additional information on capital assets.

Deposits — Deposits mainly consist of interest-bearing demand deposit accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies, instrumentalities, and municipalities.

Demand deposits and certificates of deposit had a combined decrease of $1,406 million, from $7,555 million at June 30, 2009 to $6,149 million at June 30, 2010. Deposits constitute approximately 54% and 65% of total liabilities at June 30, 2010 and 2009, respectively. Maturing deposits have been offset by the issuance of medium term notes and other borrowed funds.

Securities Sold under Agreement to Repurchase — Securities sold under agreements to repurchase increased by $199.8 million or 23.3% from $859.0 million to $1,058.8 million at June 30, 2010. These obligations partially replaced commercial paper as a source of funding for loans activity.

Other Borrowed Funds — The Bank issued several note series and bonds during fiscal year 2010, which explains the net growth of $1,048.3 million or 34.3% over last year’s balance of $3,357.8 million. Most of the notes issued during fiscal year 2010 consist of term notes maturing on various dates from February 1, 2011 to February 1, 2022. All such notes have early redemption options. Interest rates on such notes range from 2.5% to 6%. On December 30, 2009, the Bank remarketed $267 million of adjustable refunding bonds series 1985. These bonds were originally issued and sold in December 1985 and purchased by the Bank pursuant to a mandatory tender in August 2008. According to an election made by the Bank, the bonds were converted from their variable rate to a 4.75% fixed rate on December 30, 2009, when they were remarketed. These bonds are due on December 1, 2015 although they are also subject to early redemption options. The Bank used the proceeds from these obligations for general operational purposes that include, among other, the substitution of higher cost debt, increasing its investment portfolio and the funding of loans. Responding to market conditions, the Bank has increased its issuance of medium term notes and significantly reduced its commercial paper borrowings, which has lengthened the average maturity of its liabilities. (Refer to Note 12).

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2010 and 2009 is presented below (in thousands):

	Year Ended June 30, 2010				
		Program revenues			
		Charges for services			
Activity	Expenses	Fees, commissions, and others	Financing and investment	Operating grants and contributions	Net revenues (expenses)
GDB Operating Fund	$ 342,854	$ 23,518	$ 382,737	$ -	$ 63,401
Housing Finance Authority	96,153	11,114	104,413	34,000	53,374
Tourism Development Fund	28,410	1,968	9,717	15,000	(1,725)
Public Finance Corporation	4,681		4,679		(2)
Capital Fund	68	1	5,807		5,740
Development Fund	3,555	3	622		(2,930)
Other nonmajor	140	-	3	-	(137)
Total	$ 475,861	$ 36,604	$ 507,978	$ 49,000	117,721
Special item —Contribution from Puerto Rico Infrastructure Financing Authority					1,110
Transfers from governmental activities					4,902
Change in net assets					123,733
Net assets — beginning of year					2,421,807
Net assets — end of year					$ 2,545,540

	Year Ended June 30, 2009			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$ 318,792	$ 14,962	$ 332,559	$ 28,729
Housing Finance Authority	88,024	11,391	101,322	24,689
Tourism Development Fund	63,284	3,342	10,685	(49,257)
Public Finance Corporation	3,745		3,755	10
Capital Fund	67	10	(16,136)	(16,193)
Development Fund	2,929	46	383	(2,500)
Other nonmajor	136	-	8	(128)
Total	$ 476,977	$ 29,751	$ 432,576	(14,650)
Special item — Contribution from Puerto Rico Infrastructure Financing Authority				154,222
Transfers from governmental activities				6,609
Change in net assets				146,181
Net assets — beginning of year				2,275,626
Net assets — end of year				$ 2,421,807

Activities presented in the statement of activities coincide with the major enterprise funds of the Bank. GDB Operating Fund generated financing and investment revenues of $382.7 million from its loan and investment portfolios, and $23.5 million in other charges for services, mainly from its fiscal agency function. These revenues covered $342.8 million in expenses for net revenues from GDB Operating Fund of $63.4 million, surpassing the net revenues of any other activity.

During the year ended June 30, 2010, the Housing Finance Authority and Tourism Development Fund received operating contributions from the Commonwealth through the Local Economic Stimulus Program of $34 million and $15 million, respectively.

The Housing Finance Authority's activities were the second largest contributor to the change in net assets with net revenues of $53.4 million. Operating income (loss) of other major component units for fiscal year 2010 were as follows: the Capital Fund, $5.7 million, Tourism Development Fund, ($1.7) million and Development Fund, ($2.9) million.

Enterprise Funds — Following is a brief discussion of the most significant changes in the Bank's enterprise funds, not previously discussed. Our main focus will be on GDB Operating Fund, since separate basic financial statements are issued for each of the Bank's other major enterprise funds, which are blended component units.

GDB Operating Fund — Total assets of the GDB Operating Fund amounted to $13,208 million at June 30, 2010, compared to $13,010 million at June 30, 2009. This represents an increase of $198 million, which was sustained by the net increase in liabilities of $134 million and the change in net assets of $64 million. As already discussed, the GDB Operating Fund issued debt widening its assets base and obtaining more liquidity to assist governmental entities in times of economic distress. Investments increased by $1,993 million and loans to the public sector increased by $326 million principally to the municipalities. Accrued interest receivable increased from $120 million at June 30, 2009 to $128 million at June 30, 2010, mainly because of increases in interest rates on loans due to a pricing initiative during the first semester of the year. During the year, a portion of principal and interest on loans aggregating approximately $642 million was collected from proceeds of bond issuances made by the Puerto Rico Sales Tax Financing Corporation (Refer to note 5).

Operating income of the GDB Operating Fund experienced an increment from $32.2 million in fiscal year 2009 to $67.6 million in fiscal year 2010, or an increase of $35.4 million, which represents a 110%. On the other hand, change in net assets had a significant decrease from $182.8 million in fiscal year 2009 to $64.4 million in fiscal year 2010 because of the special item contributed by PRIFA of $154.2 million received during the previous year. Following is a discussion of the various components of the change in net assets of the GDB Operating Fund, compared to the prior year:

(a) *Interest Income, Interest Expense, and Change in Fair Value of Investments*

Net investment income, the difference between investment income and interest expense, increased $39.3 million or 70%, from $56.4 million in 2009 to $95.7 million in 2010. Most of the increase results from the loan portfolio, which shows an increase of $91 million or 39% as compared to the prior year results. This increase is the result of a new pricing strategy, for new and existing loans, that reflects market interest rates and has improved net interest margin. Change in fair value of investments contributed to the increase with a gain of $16.8 million. That is, $17.8 million more than the loss of $939,000 of fiscal year 2009. Interest income from investments decreased $58.5 million or 60% mainly because of lower returns. The investment activity has been mostly composed of short-term investments with average maturity not greater than 60 days which has improved liquidity but reduced interest margin. Interest expense increased by $10.8 million or 4% mainly as a result of an increase of $71.5 million in the bonds and notes line item offset by decreases of $54.8 million in the deposits and $5.6 million in the securities sold under agreements to repurchase line items.

(b) *Provision for Losses on Loans, Guarantees and Letters of Credit*

The experience with the public sector loan portfolio, even in periods of economic distress such as the present, provides continued comfort to management in its belief that there is no need for further provisions for either the loan portfolio or for the guarantees and letters of credit to public sector entities.

(c) Non-interest Income

Noninterest income increased to $23.5 million in fiscal year 2010 from $15.0 million in fiscal year 2009 or $8.5 million. Fiscal agency fees constitute the main component of non-interest income. There was an intense activity of bond issuances of public sector entities during fiscal year 2010 when compared to fiscal year 2009. The fiscal agency fees increased from $10.9 million in fiscal year 2009 to $17.2 million in fiscal year 2010 representing an increase of 57%. In addition, commitment, guarantee and other service fees increased by 50% from $3.7 million in fiscal year 2009 to $5.6 million in fiscal year 2010 or $1.9 million.

(d) Non-interest Expenses

Total non-interest expenses showed an increase of $12.5 million from $39.1 million in fiscal year 2009 to $51.6 million in fiscal year 2010. However, excluding three one-time items (1) write downs to real estate available for sale of approximately $11.9 million, (2) voluntary and involuntary terminations of $3.5 million and (3) a $2.2 million termination fee linked to the adjustable refunding bonds, non interest expense would have decreased by $5.2 million or 13%. These 2010 non-recurring items are presented within salaries and fringe benefits and other expense line items. Excluding the nonrecurring item, salaries and fringe benefits would have decreased by $2.5 million from $24.3 million in fiscal year 2009 to $21.8 million in fiscal year 2010. Salary increases for managerial positions were put on hold during fiscal year 2010 and vacant positions were not filled. Legal and professional expenses increased when compared to prior year from $2.6 million in 2009 to $3.5 million in 2010 or $0.9 million. Depreciation and amortization showed a decrease of $0.1 million and occupancy and equipment costs and office and administrative noninterest expense line items had reductions when compared to the prior year of $0.2 million and $51,000, respectively.

(e) Special Item

During the year ended June 30, 2010, the Bank received a contribution of approximately $1.1 million related to Act No. 3. This Act authorized the Puerto Rico Infrastructure Financing Authority to sell securities deposited at a corpus account and transfer part of the proceeds to the Bank. The major portion of the contribution to the Bank or $154.2 million was accounted for in the previous fiscal year.

Housing Finance Authority — Net assets of the Authority increased by $58 million from $577 million in 2009 to $635 million in 2010 as a result of decreases in total assets of $148 million and in liabilities of $206 million. The decrease in total assets is mainly due to the following:

- Investments and deposits placed with banks decreased from $1,411 million in 2009 to $1,265 million in 2010 or a $146 million decrease. This decrease was principally the result of the partial redemption of the Single Family Mortgage Revenue Bonds Portfolio XI with unused proceeds previously held in guaranteed investment contracts.

- The decrease in long-term liabilities is mainly due to an early redemption of $181 million of the Single Family Mortgage Revenue Bonds Portfolio XI, of which $164 million were paid in October 2009 and $17 million in May 2010. Also, current liabilities increased to $100 million in 2010 from $80 million in 2009 or an increase of $20 million. The increase was principally the result of a payable related to the homebuyer stimulus aid, a program established under the local stimulus program. The homebuyer stimulus help eligible persons or families acquire a newly-built or existing home through a relief aid on the down payment required at the time of purchase, by granting a second mortgage of $25,000 for newly constructed and $10,000 for existing homes, which is payable as to principal and interest after the tenth year.

- Change in net assets grew $27 million, from $31 million in 2009 to $58 million in 2010. Three main items contributed to this: the operating contributions received from the Commonwealth during fiscal year 2010 aggregating to $34 million offset by declines in operating income of $5.1 million and net transfers in of $1.7 million.

Tourism Development Fund — Total assets increased to $586.1 million from $382.1 million in 2009 or an increase of $204 million. The Tourism Development Fund mostly finances its loan portfolio through credit facilities obtained from the Bank. Notes payable due to the Bank at year-end were $362.8 million for an increase of $116.5 million from June 30, 2009. The Tourism Fund originated approximately $72.8 million in loans to the private sector during the year ended June 30, 2010. These loans are principally collateralized by real estate property to minimize the credit risk. The analysis of the allowance for loan losses required an incremental adjustment of $3.3 million during the year ended June 30, 2010.

At June 30, 2010, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $140 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of $14 million.

Change in net assets of the Tourism Development Fund increased by $119.6 million from the decrease of $49.3 million recorded last year to an increase of $70.3 million at June 30, 2010. As previously mentioned, the Tourism Development Fund benefited from an operating contribution from the Commonwealth of $15 million and a transfer of $72 million received from the Capital Fund, offset by a net loss from operations of $16.7 million during the year ended June 30, 2010.

Capital Fund — The Capital Fund's total operating income increased $21.9 million to $5.7 million from a loss recorded of $16.2 million last year. The results of the Capital Fund are determined by the fluctuations of the investment market and the change in fair value of investments recorded a gain of $5.2 million in 2010 from a loss of $16.7 million in 2009. Conversely, change in net assets in 2010 resulted in a loss of $66.3 million from a loss of $16.2 million recorded last year because of the transfer out of certain assets amounting to $72 million to the Tourism Development Fund explained above, which offset the operating income. The future activities of the Capital Fund will be significantly reduced.

Public Finance Corporation — Change in net assets decreased $13,000 from a gain of $10,000 in 2009 to a loss of $3,000 recorded during fiscal year 2010. During the year, PFC collected in full a loan receivable from the Puerto Rico Sales Tax Financing Corporation with an outstanding balance of $101 million. This loan provided the principal source of PFC's operating revenues.

Development Fund — The Development Fund's net loss was the result of a $3.5 million provision for possible losses on its guarantees to The Key for Your Business Program managed by the Economic Development Bank for Puerto Rico, a component unit of the Commonwealth. The Development Fund guarantees one third of the loans' principal plus interest and charges, up to $15 million. At June 30, 2010, the Development Fund has outstanding guarantees amounting to approximately $8 million. During the year, the Development Fund provided a combined credit and investment agreement of up to $14 million, to a private party to reopen the operations of a poultry processing plant.

6. CONTACTING THE BANK'S FINANCIAL MANAGEMENT

This report is designed to provide all interested with a general overview of the Bank's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico, 00940-2001.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF NET ASSETS (DEFICIENCY)
AS OF JUNE 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and due from banks	$ -	$ 6,121,959	$ 6,121,959
Federal funds sold		331,000,000	331,000,000
Deposits placed with banks		32,639,067	32,639,067
Investments and investment contracts		4,585,470,934	4,585,470,934
Loans receivable — net		6,949,596,082	6,949,596,082
Accrued interest receivable		127,051,217	127,051,217
Due from (to) other funds	(80,287,070)	80,287,070	
Restricted assets:			
Cash and due from banks	1,477,374	7,729,197	9,206,571
Deposits placed with banks	6,049,335	6,214,576	12,263,911
Investments and investment contracts	93,892,188	1,539,235,586	1,633,127,774
Loans receivable — net		16,787,580	16,787,580
Interest and other receivables	192,716	2,486,529	2,679,245
Due from federal government	24,109,197		24,109,197
Due from the Commonwealth of Puerto Rico	5,000,000		5,000,000
Real estate available for sale		1,339,669	1,339,669
Other assets	191,908	6,165,742	6,357,650
Real estate available for sale		206,452,231	206,452,231
Other receivables		48,707,661	48,707,661
Other assets		34,906,945	34,906,945
Capital assets:			
Land		2,845,000	2,845,000
Other capital assets		12,904,737	12,904,737
Total assets	50,625,648	13,997,941,782	14,048,567,430
LIABILITIES:			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		3,253,713,190	3,253,713,190
Certificates of deposit:			
Due within one year		2,444,014,865	2,444,014,865
Due in more than one year		451,469,689	451,469,689
Securities sold under agreements to repurchase — due in one year		1,058,834,752	1,058,834,752
Accrued interest payable	256,831	26,884,517	27,141,348
Accounts payable and accrued liabilities:			
Due within one year		44,158,829	44,158,829
Due in more than one year		7,283,627	7,283,627
Certificates of indebtedness:			
Due within one year		7,500,000	7,500,000
Due in more than one year		4,300,000	4,300,000
Allowance for losses on guarantees and letters of credit:			
Due within one year		4,076,459	4,076,459
Due in more than one year		20,698,945	20,698,945
Participation agreement payable		26,000,000	26,000,000
Bonds, notes, and mortgage-backed certificates payable:			
Due within one year		158,614,189	158,614,189
Due in more than one year	4,811,237	3,199,142,204	3,203,953,441
Liabilities payable from restricted assets:			
Accrued interest payable		1,440,545	1,440,545
Accounts payable and accrued liabilities — due in one year	47,136,858	21,473,878	68,610,736
Allowance for losses on mortgage loan insurance		346,330	346,330
Bonds, notes, and mortgage-backed certificates payable:			
Due within one year		67,605,173	67,605,173
Due in more than one year		654,844,231	654,844,231
Total liabilities	52,204,926	11,452,401,423	11,504,606,349
NET ASSETS:			
Invested in capital assets		15,749,737	15,749,737
Restricted for:			
Mortgage loan insurance		61,898,797	61,898,797
Affordable housing programs	52,933,292	230,895,407	283,828,699
Other housing programs		4,182,693	4,182,693
Unrestricted net assets (deficit)	(54,512,570)	2,232,813,725	2,178,301,155
TOTAL NET ASSETS (DEFICIENCY)	$ (1,579,278)	$ 2,545,540,359	$ 2,543,961,081

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

		Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services - Fees, Commissions, and Others	Charges for Services - Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government and other	$ 4,776,401	$ -	$ -	$ -	$ (4,776,401)	$ -	$ (4,776,401)
Housing assistance programs	250,787,186		4,743,015	225,267,928	(20,776,243)		(20,776,243)
Total governmental activities	255,563,587		4,743,015	225,267,928	(25,552,644)		(25,552,644)
Business-type activities:							
GDB Operating Fund	342,853,623	23,518,160	382,737,166			63,401,703	63,401,703
Housing Finance Authority	96,152,999	11,113,886	104,413,094	34,000,000		53,373,981	53,373,981
Tourism Development Fund	28,409,723	1,967,750	9,717,292	15,000,000		(1,724,681)	(1,724,681)
Public Finance Corporation	4,681,457		4,678,835			(2,622)	(2,622)
Capital Fund	67,663	1,328	5,807,222			5,740,887	5,740,887
Development Fund	3,554,722	3,406	621,905			(2,929,411)	(2,929,411)
Other nonmajor	140,409		2,468			(137,941)	(137,941)
Total business-type activities	475,860,596	36,604,530	507,977,982	49,000,000		117,721,916	117,721,916
Total	$ 731,424,183	$ 36,604,530	$ 512,720,997	$ 274,267,928	(25,552,644)	117,721,916	92,169,272
SPECIAL ITEM—Contribution from Puerto Rico Infrastructure Financing Authority						1,109,641	1,109,641
TRANSFERS IN (OUT) — Net					(4,902,162)	4,902,162	-
Total special item and transfers					(4,902,162)	6,011,803	1,109,641
CHANGE IN NET ASSETS					(30,454,806)	123,733,719	93,278,913
NET ASSETS — Beginning of year					28,875,528	2,421,806,640	2,450,682,168
NET ASSETS (DEFICIENCY) — End of year					$ (1,579,278)	$ 2,545,540,359	$ 2,543,961,081

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

	HUD Programs	ARRA Funds	Closing Costs Assistance Program	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:						
Due from other funds	$ -	$ -	$ -	$ 20,015	$ (71)	$ 19,944
Restricted:						
Cash and due from banks	1,369,446			107,928		1,477,374
Deposits placed with banks			6,047,530	1,805		6,049,335
Investments and investment contracts				93,892,188		93,892,188
Due from other funds	290,764	189	5,023,834	17,245,500		22,560,287
Interest and other receivables			50,179	142,537		192,716
Due from federal government	2,215,922	21,893,275				24,109,197
Due from Commonwealth of Puerto Rico			5,000,000			5,000,000
TOTAL	$ 3,876,132	$ 21,893,464	$ 16,121,543	$ 111,409,973	$ (71)	$ 153,301,041
LIABILITIES:						
Due to other funds	$ 1,235,972	$ -	$ 24,014	$ 101,607,386	$ (71)	$ 102,867,301
Restricted — accounts payable and accrued liabilities	2,640,160	21,893,464	11,301,872	11,301,362		47,136,858
Total liabilities	3,876,132	21,893,464	11,325,886	112,908,748	(71)	150,004,159
FUND BALANCES (DEFICIT):						
Unreserved — special revenue funds			4,795,657	(1,498,775)		3,296,882
Total fund balances (deficit)			4,795,657	(1,498,775)		3,296,882
TOTAL	$ 3,876,132	$ 21,893,464	$ 16,121,543	$ 111,409,973	$ (71)	$ 153,301,041

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balance	$ 3,296,882
Deferred debt issue costs that are recorded as expenditures in governmental funds, are capitalized in the government-wide financial statements	191,908
Bonds and notes payable are not due and payable in the current period and therefore are not reported in the funds	(4,811,237)
Accrued interest payable not due and payable in the current period	(256,831)
Net deficiency of governmental activities	$ (1,579,278)

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	HUD Programs	ARRA Funds	Closing Costs Assistance Program	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:					
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$ 10,000,000	$ 1,161,681	$ 11,161,681
Intergovernmental – federal government	124,519,535	86,636,311			211,155,846
Interest on investments				4,537,792	4,537,792
Interest income on loans and deposits placed with banks			43,392	118,238	161,630
Net increase in fair value of investments				43,593	43,593
Net gain on sale of real estate available for sale				93,800	93,800
Other	40,073			1,587,338	1,627,411
Total revenues	124,559,608	86,636,311	10,043,392	7,542,442	228,781,753
EXPENDITURES:					
Current:					
General government and other	4,679,791			96,610	4,776,401
Housing assistance programs	119,879,817	86,636,311	26,415,424	14,081,341	247,012,893
Debt service —					
Interest				2,407,104	2,407,104
Total expenditures	124,559,608	86,636,311	26,415,424	16,585,055	254,196,398
DEFICIENCY OF REVENUES UNDER EXPENDITURES			(16,372,032)	(9,042,613)	(25,414,645)
OTHER FINANCING SOURCES (USES):					
Transfers-in			21,167,689	44,396,172	65,563,861
Transfers-out				(70,466,023)	(70,466,023)
Total other financing sources (uses)			21,167,689	(26,069,851)	(4,902,162)
NET CHANGE IN FUND BALANCES			4,795,657	(35,112,464)	(30,316,807)
FUND BALANCES — Beginning of year				33,613,689	33,613,689
FUND BALANCES (DEFICIT) — End of year	$ -	$ -	$ 4,795,657	$ (1,498,775)	$ 3,296,882

Amounts reported for governmental activities in the statement of net assets are different because:	
Net change in fund balances - total governmental funds	$ (30,316,807)
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(1,229,190)
Revenues in the statement of activities that do not provide current financial resources and, therefore, are not reported as revenues in governmental funds	1,229,190
Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year	(137,999)
Change in net assets of governmental activities	$ (30,454,806)

See notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
ASSETS									
CURRENT ASSETS:									
Cash and due from banks	$ 5,452,348	$ 6,732,429	$ 23,774,090	$ 1,054,443	$ -	$ 26,263,278	$ 2,406,750	$ (59,561,379)	$ 6,121,959
Federal funds sold	331,000,000								331,000,000
Deposits placed with banks	7,626,549	116,131,209	77,441,899					(168,560,590)	32,639,067
Investments and investment contracts	4,034,443,465		31,082,255		246,608				4,065,772,328
Loans receivable, net	563,592,459	5,327,000	8,400,000					(8,400,000)	568,919,459
Accrued interest receivable	128,314,302	1,418,509	1,320,370	88	2,903	69,362	201	(4,074,518)	127,051,217
Other current receivables	8,934,462	1,052,073	244,140						10,230,675
Other current assets	7,241,448	58,215							7,299,663
Due from governmental funds	100,735,356	2,131,945							102,867,301
Restricted:									
Cash and due from banks		24,922,414						(17,193,217)	7,729,197
Deposits placed with banks		405,306,936						(399,092,360)	6,214,576
Investments and investment contracts	794,047,624	570,982							794,618,606
Loans receivable, net		528,000							528,000
Accrued interest receivable		13,801,625						(11,467,661)	2,333,964
Other current receivables		152,565							152,565
Total current assets	5,981,388,013	578,133,902	142,262,754	1,054,531	249,511	26,332,640	2,406,951	(668,349,725)	6,063,478,577
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	342,142,751	724,468,987						(321,994,758)	744,616,980
Loans receivable, net		16,259,580							16,259,580
Real estate available for sale		1,339,669							1,339,669
Other assets		6,165,742							6,165,742
Investments and investment contracts	371,709,200	18,357,183	132,478,355			7,789,583		(10,635,715)	519,698,606
Loans receivable, net	6,239,187,440	186,020,183	311,159,243			2,185,552		(357,875,795)	6,380,676,623
Real estate available for sale	205,026,337	1,425,894							206,452,231
Other receivables	38,476,986								38,476,986
Other assets	18,437,496	8,880,000	289,786						27,607,282
Capital assets:									
Land	2,845,000								2,845,000
Other capital assets	9,303,383	3,601,354							12,904,737
Total noncurrent assets	7,227,128,593	966,518,592	443,927,384			9,975,135		(690,506,268)	7,957,043,436
TOTAL ASSETS	$ 13,208,516,606	$ 1,544,652,494	$ 586,190,138	$ 1,054,531	$ 249,511	$ 36,307,775	$ 2,406,951	$ (1,358,855,993)	$ 14,020,522,013

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 3,331,074,874	$ -	$ -	$ -	$ -	$ -	$ -	$ (77,361,684)	$ 3,253,713,190
Certificates of deposit	3,011,667,815							(567,652,950)	2,444,014,865
Certificates of indebtedness	7,500,000								7,500,000
Securities sold under agreements to repurchase	1,058,834,752								1,058,834,752
Accrued interest payable	38,566,132	413	3,860,151					(15,542,179)	26,884,517
Accounts payable and accrued liabilities	32,805,812	9,361,122	1,246,223	62,351	17,258	4,934	54,041	607,088	44,158,829
Allowance for losses on guarantees and letters of credit			2,529,919			1,546,540			4,076,459
Due to governmental funds	22,560,287	19,944							22,580,231
Notes payable	158,614,189		8,400,000					(8,400,000)	158,614,189
Total current liabilities payable from unrestricted assets	7,661,623,861	9,381,479	16,036,293	62,351	17,258	1,551,474	54,041	(668,349,725)	7,020,377,032
Current liabilities payable from restricted assets:									
Accrued interest payable		1,440,545							1,440,545
Accounts payable and accrued liabilities		21,473,878							21,473,878
Bonds, notes and mortgage-backed certificates payable		67,605,173							67,605,173
Total current liabilities	7,661,623,861	99,901,075	16,036,293	62,351	17,258	1,551,474	54,041	(668,349,725)	7,110,896,628

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
Noncurrent liabilities:									
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	$ 633,270,717	$ -	$ -	$ -	$ -	$ -	$ -	$ (181,801,028)	$ 451,469,689
Certificates of indebtedness	4,300,000								4,300,000
Allowance for losses on guarantees and letters of credit	1,000,000		18,754,681			944,264			20,698,945
Accounts payable and accrued liabilities	4,904,689						2,378,938		7,283,627
Participation agreement payable			26,000,000						26,000,000
Bonds and notes payable	3,199,142,204	3,495,586	354,380,208					(357,875,794)	3,199,142,204
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance		346,330							346,330
Bonds, notes and mortgage-backed certificates payable		805,673,677						(150,829,446)	654,844,231
Total noncurrent liabilities	3,842,617,610	809,515,593	399,134,889	-	-	944,264	2,378,938	(690,506,268)	4,364,085,026
Total liabilities	11,504,241,471	909,416,668	415,171,182	62,351	17,258	2,495,738	2,432,979	(1,358,855,993)	11,474,981,654
NET ASSETS:									
Invested in capital assets	12,148,383	3,601,354							15,749,737
Restricted for:									
Mortgage loan insurance		61,898,797							61,898,797
Affordable housing programs		230,895,407							230,895,407
Other housing programs		4,182,693							4,182,693
Unrestricted	1,692,126,752	334,657,575	171,018,956	992,180	232,253	33,812,037	(26,028)		2,232,813,725
Total net assets (deficiency)	1,704,275,135	635,235,826	171,018,956	992,180	232,253	33,812,037	(26,028)		2,545,540,359
TOTAL LIABILITIES AND NET ASSETS	$ 13,208,516,606	$ 1,544,652,494	$ 586,190,138	$ 1,054,531	$ 249,511	$ 36,307,775	$ 2,406,951	$ (1,358,855,993)	$ 14,020,522,013

See notes to basic financial statements.

(Concluded)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold	$ 1,662,078	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,662,078
Interest income on deposits placed with banks	933,844	25,302,882	462,844	1,085		27,898	2,468	26,731,021
Interest and dividend income on investments and investment contracts	36,873,050	45,141,241	911,096		616,631	429,807		83,971,825
Net increase (decrease) in fair value of investments	16,828,350	20,827,764	(59,535)		5,190,591	151,000		42,938,170
Total investment income	56,297,322	91,271,887	1,314,405	1,085	5,807,222	608,705	2,468	155,303,094
Interest income on loans receivable:								
Public sector	326,438,248			4,677,750				331,115,998
Private sector	1,596	13,141,207	8,402,887			13,200		21,558,890
Total interest income on loans receivable	326,439,844	13,141,207	8,402,887	4,677,750		13,200		352,674,888
Total investment income and interest income on loans receivable	382,737,166	104,413,094	9,717,292	4,678,835	5,807,222	621,905	2,468	507,977,982
Noninterest income:								
Fiscal agency fees	17,226,656	98,321						17,324,977
Commitment, guarantee and other service fees	5,565,924	7,574,288	1,967,238			3,406		15,110,856
Mortgage loan insurance premiums		3,156,393						3,156,393
Other income	725,580	284,884	512		1,328			1,012,304
Total noninterest income	23,518,160	11,113,886	1,967,750		1,328	3,406		36,604,530
Total operating revenues	406,255,326	115,526,980	11,685,042	4,678,835	5,808,550	625,311	2,468	544,582,512
OPERATING EXPENSES:								
Provision for loan losses		10,001,271	3,338,872					13,340,143
Interest expense:								
Deposits	110,980,998							110,980,998
Securities sold under agreements to repurchase and federal funds purchased	25,000,086							25,000,086
Commercial paper	24,001							24,001
Certificates of indebtedness	27,030							27,030
Bonds, notes and mortgage-backed certificates	151,017,060	62,419,117	10,404,383	4,677,750				228,518,310
Total interest expense	287,049,175	62,419,117	10,404,383	4,677,750				364,550,425

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total
Noninterest expenses:								
Salaries and fringe benefits	$ 25,322,708	$ 10,396,470	$ 110,252	$ -	$ -	$ -	$ 63,950	$ 35,893,380
Depreciation and amortization	1,692,837	1,169,109						2,861,946
Occupancy and equipment costs	3,828,115	2,391,645						6,219,760
Legal and professional fees	3,459,935	2,049,599	552,234	3,707	36,044	97,270	64,402	6,263,191
Office and administrative	320,602	624,382			31,619			976,603
Subsidy and trustee fees	3,500	4,259,514						4,263,014
Provision for losses on guarantees and letters of credit			14,003,600			3,457,452		17,461,052
Other	17,028,448	2,646,066	382				12,057	19,686,953
Total noninterest expenses	51,656,145	23,536,785	14,666,468	3,707	67,663	3,554,722	140,409	93,625,899
Total operating expenses	338,705,320	95,957,173	28,409,723	4,681,457	67,663	3,554,722	140,409	471,516,467
OPERATING INCOME (LOSS)	67,550,006	19,569,807	(16,724,681)	(2,622)	5,740,887	(2,929,411)	(137,941)	73,066,045
NONOPERATING REVENUES (EXPENSES):								
Contributions from Commonwealth of Puerto Rico		34,000,000	15,000,000					49,000,000
Contributions to Cooperative Development Investment Trust Fund and others	(4,148,303)	(195,826)						(4,344,129)
TOTAL NONOPERATING REVENUES (EXPENSES) — NET	(4,148,303)	33,804,174	15,000,000	-	-	-	-	44,655,871
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority	1,109,641							1,109,641
TRANSFERS IN		37,192,401	72,065,647				100,000	109,358,048
TRANSFERS OUT	(100,000)	(32,290,239)			(72,065,647)			(104,455,886)
CHANGE IN NET ASSETS	64,411,344	58,276,143	70,340,966	(2,622)	(66,324,760)	(2,929,411)	(37,941)	123,733,719
NET ASSETS — Beginning of year	1,639,863,791	576,959,683	100,677,990	994,802	66,557,013	36,741,448	11,913	2,421,806,640
NET ASSETS — End of year	$ 1,704,275,135	$ 635,235,826	$ 171,018,956	$ 992,180	$ 232,253	$ 33,812,037	$ (26,028)	$ 2,545,540,359

See notes to basic financial statements.

(Concluded)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from interest on housing program loans	$ -	$ 11,443,493	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,443,493
Cash paid for housing program loans originated		(26,022,630)							(26,022,630)
Principal collected on housing program loans		26,190,079							26,190,079
Guarantee fees collected			1,719,315			3,406			1,722,721
Payment of guarantees						(4,056,522)			(4,056,522)
Cash received from other operating non-interest revenues	72,971,635	8,489,013	509		1,328				81,462,485
Due from/to governmental funds	(2,376,587)	5,161,700							2,785,113
Cash payments for other operating non-interest expenses	(32,355,395)	(20,947,912)	(837,416)	(3,602)	(92,419)	(97,165)	(90,552)	(2,917,252)	(57,341,713)
Cash received from mortgage loans insurance premiums	-	3,156,393	-	-	-	-	-	-	3,156,393
Net cash provided by (used in) operating activities	38,239,653	7,470,136	882,408	(3,602)	(91,091)	(4,150,281)	(90,552)	(2,917,252)	39,339,418
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions from the Commonwealth of Puerto Rico		34,000,000	15,000,000						49,000,000
Contributions to others	(4,148,303)	(195,826)							(4,344,129)
Contributions from others	1,109,641	-							1,109,641
Transfers-in	-	18,449,214					100,000		18,549,214
Transfers-out	(100,000)	(32,471,405)							(32,571,405)
Net increase (decrease) in:									
Deposits	80,913,068							(14,694,422)	66,218,646
Certificates of deposit	(1,442,378,712)							(29,449,658)	(1,471,828,370)
Proceeds from issuance of securities sold under agreements to repurchase	5,690,429,641								5,690,429,641
Payment of securities sold under agreements to repurchase	(5,490,647,999)								(5,490,647,999)
Proceeds from issuance of bonds and notes	1,623,076,000	10,435,259	119,419,845					(122,205,104)	1,630,726,000
Repayments of bonds and notes	(335,450,000)	(267,569,202)	(8,240,024)	(101,323,890)				110,450,593	(602,132,522)
Payment of debt issue costs	(16,859,635)	(166,500)							(17,026,135)
Escrow payments				(19,335)					(19,335)
Interest paid	(267,729,040)	(28,961,797)	(1,693,003)	(8,417,798)	-	-	-	(572,538)	(307,374,176)
Net cash provided by (used in) noncapital financing activities	(161,785,339)	(266,480,258)	124,486,818	(109,761,023)	-	-	100,000	(56,471,129)	(469,910,930)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Purchase of capital assets	(547,763)	(611,667)	-	-	-	-	-	-	(1,159,430)

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold	$ 1,033,000,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,033,000,000
Deposits placed with banks	1,052,971,206	(31,957,747)	14,698,998					29,449,658	1,065,162,115
Purchases of investments	(7,424,880,183)	(79,058,411)	(82,299,538)			(4,750,000)			(7,590,988,132)
Proceeds from sales and redemptions of investments	5,460,332,418	308,340,213	16,315,419			250,000			5,785,238,050
Interest and dividends received on investments	27,890,717	59,981,493	1,297,668	1,363	91,091	431,330	2,469	(204,039)	89,492,092
Interest received on other than housing program loans	310,381,242		972,939	8,407,818				776,577	320,538,576
Fees collected on other than housing program loans		6,927,998							6,927,998
Origination of other than housing program loans	(3,261,378,510)		(72,809,515)			(2,185,552)		122,205,104	(3,214,168,473)
Principal collected on other than housing program loans	2,943,347,754		8,780,000	101,050,855				(110,450,593)	2,942,728,016
Proceeds from sales of real estate available for sale		2,215,661							2,215,661
Disbursements for acquisition and improvements to real estate available for sale	(17,889,193)	(297,445)	-	-	-	-	-	-	(18,186,638)
Net cash provided by (used in) investing activities	123,775,451	266,151,762	(113,044,029)	109,460,036	91,091	(6,254,222)	2,469	41,776,707	421,959,265
NET CHANGE IN CASH AND DUE FROM BANKS	(317,998)	6,529,973	12,325,197	(304,589)	-	(10,404,503)	11,917	(17,611,674)	(9,771,677)
CASH AND DUE FROM BANKS — Beginning of year	5,770,346	25,124,870	11,448,893	1,359,032	-	36,667,781	2,394,833	(59,142,922)	23,622,833
CASH AND DUE FROM BANKS — End of year	$ 5,452,348	$ 31,654,843	$ 23,774,090	$ 1,054,443	$ -	$ 26,263,278	$ 2,406,750	$ (76,754,596)	$ 13,851,156
RECONCILIATION TO BALANCE SHEET ENTERPRISE FUNDS									
Cash and due from banks– unrestricted	$ 5,452,348	$ 6,732,429	$ 23,774,090	$ 1,054,443	$ -	$ 26,263,278	$ 2,406,750	$ (59,561,379)	$ 6,121,959
Cash and due from banks– restricted	-	24,922,414	-	-	-	-	-	(17,193,217)	7,729,197
TOTAL CASH AT YEAR END	$ 5,452,348	$ 31,654,843	$ 23,774,090	$ 1,054,443	$ -	$ 26,263,278	$ 2,406,750	$ (76,754,596)	$ 13,851,156

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	$ 67,550,006	$ 19,569,807	$ (16,724,681)	$ (2,622)	$ 5,740,887	$ (2,929,411)	$ (137,941)	$ -	$ 73,066,045
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(39,468,972)	(70,444,123)	(1,373,940)	(1,085)	(616,631)	(457,705)	(2,468)		(112,364,924)
Interest income on other than housing program loans	(326,439,844)		(8,402,887)	(4,677,750)		(13,200)			(339,533,681)
Capitalized interest on housing program loans		(1,607,039)							(1,607,039)
Interest expense	287,049,175	62,419,117	10,404,383	4,677,750					364,550,425
Accretion of deferred loan fees		(85,229)							(85,229)
Provision for loan losses		10,001,271	3,338,872						13,340,143
Provision for losses on guarantees and letters of credit			14,003,600			3,457,452			17,461,052
Provision for losses on other assets		172,848							172,848
Payments of guarantees						(4,056,522)			(4,056,522)
Provision for losses on mortgage loan insurance		157,678							157,678
Net decrease (increase) in fair value of investments	(16,828,350)	(20,827,764)	59,535		(5,190,591)	(151,000)			(42,938,170)
Provision for losses on real estate available for sale	11,926,978	1,277,700							13,204,678
Loss on sale of real estate available for sale		181,844							181,844
Depreciation and amortization	1,692,837	1,169,109							2,861,946
Origination of housing program loans		(26,022,630)							(26,022,630)
Collections of housing program loans		26,190,079							26,190,079
Changes in operating assets and liabilities:									
Interest receivable on housing program loans		(143,170)							(143,170)
Decrease in other assets	49,453,469	358,544							49,812,013
Decrease (increase) in due from/to governmental funds	(2,376,587)	5,161,700							2,785,113
Increase (decrease) in other liabilities	5,680,941	(59,605)	(422,474)	105	(24,756)	105	49,857	(2,917,252)	2,306,921
Net cash provided by (used in) operating activities	$ 38,239,653	$ 7,470,137	$ 882,408	$ (3,602)	$ (91,091)	$ (4,150,281)	$ (90,552)	$ (2,917,252)	$ 39,339,419

See notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)

STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Noncash investing and noncapital financing activities:									
Accretion of discount on investment securities	$ 11,646,182	$ 11,472,774	$ 3,584	$ -	$ 607,175	$ -	$ -	$ (11,404,444)	$ 12,325,271
Capitalized interest on loans and other	7,984,370	1,607,039	6,835,394					(5,322,535)	11,104,268
Mortgage loans originated not yet disbursed		20,655,000							20,655,000
Transfer of real estate available for sale to other assets	2,868,799								2,868,799
Accretion of discount (premium) on:									
Deposits	11,404,444							(11,404,444)	-
Bonds and notes payable	(2,594,912)	33,316,270	5,322,535					(16,693,105)	19,350,788
Increase (decrease) in fair value of investments	16,828,350	20,827,764	(59,535)		5,190,591	(151,000)		(11,370,570)	31,265,600
Amortization of debt issue costs (included in interest expense)	6,409,218								6,409,218
Amortization of deferred loss on refunding		402,945							402,945
Transfer of investments			72,065,647		(72,065,647)				-
Transfer of housing program loans to real estate available for sale		2,045,741							2,045,741
Transfers from governmental funds to enterprise funds:									
Investments		881,567							881,567
Real estate available for sale		1,611,041							1,611,041
Due from/to governmental funds		(1,611,041)							(1,611,041)
Deposits placed with banks		17,649,392							17,649,392
Interest receivable		43,503							43,503
Real estate available for sale		350,424							350,424
Liabilities		(500)							(500)
Transfer in from other fund		(18,924,351)							(18,924,351)
Transfer of internal balance		(35)							(35)

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

Government Development Bank for Puerto Rico (the “Bank” or “GDB”) is a component unit of the Commonwealth of Puerto Rico (the “Commonwealth”) created by Act No. 17 of September 23, 1948, as amended. The Bank’s principal functions are to act as fiscal agent for the Commonwealth and its public entities and to make loans to public entities and private enterprises, which will further the economic development of Puerto Rico. The charter of the Bank provides for its perpetual existence, and no amendment to the charter, or to any other law of Puerto Rico, shall impair any outstanding obligations or commitments of the Bank. The Bank is exempt from taxation in Puerto Rico. The Bank’s charter, as amended, allows the Bank to invest in securities issued by any corporate entity engaged in the economic development of Puerto Rico, as well as to guarantee loans and other obligations incurred by public and private entities.

Pursuant to Act No. 82 of June 16, 2002, which amended the Bank’s enabling legislation, the Bank may transfer annually to the General Fund of the Commonwealth (the “General Fund”) up to 10% of its net income or $10 million, whichever is greater. Management of the Bank has defined net income as the increase in unrestricted net assets of business-type activities for a fiscal year. The Bank’s board of directors approved such definition. The Bank did not make this transfer for the year ended June 30, 2010.

The Bank has the following blended component units: Puerto Rico Housing Finance Authority (the “Housing Finance Authority”), Puerto Rico Tourism Development Fund (the “Tourism Development Fund”), Puerto Rico Development Fund (the “Development Fund”), Puerto Rico Public Finance Corporation (the “Public Finance Corporation”), Government Development Bank for Puerto Rico Capital Fund (the “Capital Fund”), José M. Berrocal Finance and Economics Institute (“JMB Institute”), and Puerto Rico Higher Education Assistance Corporation (the “Education Assistance Corporation”). The balances and transactions of the component units discussed above have been blended with those of the Bank in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) because, while legally separate, they were created and can be dissolved through resolutions of the Bank’s board of directors. The board of directors of each of the blended component units is substantially the same as that of the Bank. Financial statements of each major blended component unit may be obtained from the Bank.

The Housing Finance Authority (formerly known as the Puerto Rico Housing Finance Corporation) was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, operation, and maintenance of rental housing for low and moderate-income families. The Housing Finance Authority also issues bonds and notes, the proceeds of which are deposited in separate trusts and generally invested in mortgaged-backed securities collateralized by mortgage loans on properties located in Puerto Rico purchased by low and moderate-income families. The Housing Finance Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 program in Puerto Rico and to act as an approved mortgagor, both for multifamily rental units and for single-family homes. In addition, it is an authorized issuer of Government National Mortgage Association (GNMA) mortgage-backed securities, and is Puerto Rico’s State Credit Agency for the Low-Income Housing Tax Credit Program under Section 42 of the U.S. Internal Revenue Code.

The Housing Finance Authority, in conjunction with the Puerto Rico Department of Housing, is the entity responsible for certifying projects under the New Secure Housing Program (known in Spanish as ―Nuevo Hogar Seguro”), with the approval of the Federal Emergency Management Agency (FEMA). This program is directed to plan, coordinate, and develop the construction of new housing as a replacement to those destroyed by Hurricane Georges in 1998, and to attend the housing needs of families living in flood zone areas.

The Tourism Development Fund was created in 1993 to promote the hotel and tourism industry of the Commonwealth, primarily through the issuance of letters of credit and guarantees. The Tourism Development Fund is also authorized to make capital investments and provide direct financing to tourism-related projects.

The Development Fund was created in 1977 to expand the sources of financing available for the development of the private sector of the economy of Puerto Rico and to complement the Bank’s lending program. The Development Fund may also guarantee obligations of private sector enterprises and invest in their equity securities.

The Public Finance Corporation was created in 1984 to provide the agencies and instrumentalities of the Commonwealth with alternate means of satisfying financial needs. The resolution creating the Public Finance Corporation states that if it were to be dissolved or cease to exist without a successor public entity being appointed, any funds or assets not required for the payment of its bonds or any other obligation, will be transferred to the Secretary of the Department of the Treasury of the Commonwealth (the ―Department of the Treasury”) for deposit in the Commonwealth’s general fund.

The Capital Fund was created in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank’s general investment operations, an equity investments process through professional equity investment managers. In January 2002, the Bank’s board of directors authorized an increase in the capitalization of the Capital Fund of up to 10% of the net assets of the Bank, as well as the adoption of a new investment strategy, which included the hiring of two additional portfolio managers to diversify the Capital Fund investments in the equity markets. On May 31, 2010, the board of directors of the Capital Fund authorized the transfer of its investments portfolio of approximately $72 million to the Tourism Development Fund. The transfer was completed on June 30, 2010. The Capital Fund’s activities will be reduced significantly after June 30, 2010.

Other nonmajor funds include the JMB Institute and the Education Assistance Corporation. The JMB Institute was created in 2002 to complement the Bank’s mission of promoting economic development by providing specialized training on the theory and practice of public finances and economics to talented young professionals in order to attract them to join the public service. The Education Assistance Corporation was created in 1981 to administer the Stafford Loan Program in Puerto Rico and guarantee the payment of student loans granted by financial institutions in Puerto Rico under certain terms and restrictions. The operations of this fund were transferred to a guarantee agency designated by the U.S. Department of Education. The Education Assistance Corporation is currently inactive.

To minimize its risk of loss, the Bank purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as medical and workmen’s insurance for employees. The selection of the insurer has to be approved by the Public Insurance Office of the Department of the Treasury. Insurance coverage is updated annually to account for changes in operating risk. For the last three years, insurance settlements have not exceeded the amount of coverage.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (U.S. GAAP), as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The Bank has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989, in accounting and reporting for its enterprise funds and business type activities to the extent they did not conflict with GASB pronouncements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements — The statement of net assets (deficiency) and the statement of activities report information on all activities of the Bank. The effect of interfund balances has been removed from the government-wide statement of net assets, except for the residual amounts due between governmental and business-type activities. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Bank's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and interest earned on investment securities and loans. Following is a description of the Bank's government-wide financial statements.

The statement of net assets (deficiency) presents the Bank's assets and liabilities, with the difference reported as net assets (deficiency). Net assets are reported in three categories:

- Invested in capital assets, net of any related debt, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets (deficiency) consist of net assets (deficiency) that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, in order to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on use that are imposed by management, but such constraints may be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include: (1) interest income on loans and investments, changes in the fair value of investments, and fees and charges to customers for services rendered or for privileges provided, and (2) grants and contributions that are restricted to meet the operational or capital requirements of a particular function. Other items not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements — Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The financial activities of the Bank that are reported in the accompanying basic financial statements have been classified into governmental and enterprise funds.

Separate financial statements are provided for governmental funds and enterprise funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. Fund balances at the beginning of the year are restated to reflect changes in major fund definition. In the case of enterprise funds, each individual blended component unit of the Bank with the exception of JMB Institute and Education Assistance Corporation, which have been grouped as other nonmajor funds, has been reported as a separate major fund in the fund financial statements. In the case of the Housing Finance Authority, all of its activities not classified and reported as governmental funds have been reported as an enterprise fund.

Measurement Focus, Basis of Accounting, and Financial Statements Presentation:

Government-Wide Financial Statements — The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental Funds' Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the HUD Programs, ARRA Funds and Closing Costs Assistance Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2010, is reported only in the government-wide financial statements.

- Interest on general long-term obligations is generally recognized when paid.

- Debt service principal expenditures and claims and judgments are recorded only when payment is due.

Governmental Funds — The following governmental activities of the Bank are classified as major governmental funds:

- HUD Programs — This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.

- ARRA Funds — This special revenue fund accounts for funds received under Title XII and Section 1602 of the American Recovery and Reinvestment Act of 2009. Title XII is a grant program that provides funds for capital investments in low-income housing tax credit projects. Section 1602 grants funds to states to finance construction or acquisition and rehabilitation of qualified low-income buildings for low-income housing in lieu of low-income housing tax credits.

- Closing Costs Assistance Program — This program was created to provide subsidies to low and moderate-income families of closing costs related to the purchase of housing units, subject to certain maximum amounts.

The following governmental activities of the Bank are accounted for in other nonmajor governmental funds:

- Affordable Housing Mortgage Subsidy Program (Stages 2, 3, 6, 7, 8, 9, 10 and 11) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 2, 3, 6, 7, 8, 9, 10 and 11 of the Affordable Housing Mortgage Subsidy Program (AHMSP) that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under these stages, the Housing Finance Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stages 9, 10, and 11 to acquire such mortgages in the form of mortgage-backed securities issued by the financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2010.

- AHMSP Act No. 124 — This special revenue fund accounts for excess subsidy funds as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

- Special Obligation Refunding Bonds — Debt Service — This debt service fund accounted for the funds and assets transferred by the Commonwealth through legislative appropriations and by the liquidator of the former ―Corporación de Renovación Urbana y Vivienda" (CRUV). On August 21, 2009, the board of directors of the Housing Finance Authority authorized to liquidate this fund and its net assets were transferred to the AHSMP Stage 7 fund to partially repay the amounts due to the Bank.

- Affordable Housing Mortgage Subsidy Mortgage-Backed Certificates — This special revenue fund is used to account for specific revenue sources used to provide subsidy for the mortgages underlying the mortgage-backed securities held as collateral for the mortgage-backed certificates issued in fiscal year 2007.

- New Secure Housing Program — This special revenue fund is used to account for federal and local resources directed to plan, coordinate, and develop the construction of new housing units as a replacement for those destroyed by Hurricane Georges in 1998 and to attend the housing needs of those families living in hazard prone areas.

- The Key for Your Home Program — This special revenue fund was created to provide subsidy to low and moderate income families of costs directly related to the purchase and rehabilitation of housing units, subject to certain maximum amounts. This fund was closed during the year ended June 30, 2010.

Enterprise Funds' Financial Statements — The financial statements of the enterprise funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from the Bank providing the services that correspond to their principal ongoing operations. Operating revenues are generated from lending, investing, banking and fiscal agency services, and other related activities. Operating expenses include interest expense, any provision for losses on loans, advances or guarantees and all general and administrative expenses, among others. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Securities Purchased Under Agreements to Resell — The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted. There were no securities purchased under agreements to resell outstanding at June 30, 2010.

Investments and Investment Contracts — Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

Loans Receivable and Allowance for Loan Losses — Loans in the enterprise funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. The accrual of interest on loans to the private sector ceases when loans become past due over six months. For loans to public sector entities, the accrual of interest ceases when management determines that all of the following characteristics are present: (a) a loan is six months past due; (b) it has no current source of repayment; (c) it is not covered by a formal commitment from the Commonwealth; and (d) it has no designated collateral or such collateral is insufficient. Once a loan is placed in nonaccrual status, all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

The allowance for loan losses is established through provisions recorded in the fund financial statements. This allowance is based on management's evaluation of the risk characteristics of the loan including such factors as the nature of individual credits outstanding, past loss experience, known and inherent risks in the portfolios, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collection of the principal is unlikely. Recoveries of amounts previously charged off are credited to the respective allowance. Because of uncertainties inherent in the estimation process, management estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change in the near future.

Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted for predominantly in the same manner as nonaccrual loans.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows, discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by establishing a valuation allowance.

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $4,979,070,000 or 35.4% of the Bank's total assets as of June 30, 2010. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past eight years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

Management believes that no losses will be incurred by the Bank with respect to principal and interest on most of its loans to the public sector (including municipalities), and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, management bases its position in that in the past, the Director of the Office of Management and Budget of the Commonwealth (―OMB") has included in the budget of the Commonwealth, appropriations to assist the Commonwealth and certain public sector corporations, agencies, and instrumentalities in repaying their loans with the Bank. The Legislature of the Commonwealth (the ―Legislature") has generally approved these appropriations, and such practice is anticipated to continue in the future. Further, in accordance with Act No. 164 of December 17, 2001, the Bank is no longer allowed to originate loans to any governmental entity for which the source of repayment consists of appropriations from the Commonwealth's general fund without first obtaining the approval of the Legislature, except for (i) loans up to an aggregate amount of $100,000,000 as long as, among other things, the Bank obtains the written approval of the Governor and the Director of OMB, (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues. In January 2009, Act. No. 4 increased the aggregate amount of loans for which the source of repayment consists of appropriations from the Commonwealth's general fund and require written approval by the Governor and the Director of OMB from $100,000,000 to $200,000,000 until June 30, 2011.

In addition, on May 13, 2006, the Legislature enacted Act No. 91 that established the *Dedicated Sales Tax Fund*, known as FIA by the acronym of its Spanish name (the ―FIA Fund"). Act No. 91 originally provided that the first one percent of the Commonwealth's share of the sales and consumption tax (―Pledged Sales Tax") will be used to repay certain obligations of the Commonwealth that were outstanding at June 30, 2006, payable to the Bank and the Public Finance Corporation, generally referred to as extra-constitutional debt, including approximately $2.8 billion of loans due by the Commonwealth and certain of its instrumentalities to the Bank.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56 enacted on July 5, 2007, to create the Puerto Rico Sales Tax Financing Corporation (the ―Sales Tax Corporation") as an independent governmental instrumentality that will own and hold the FIA Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91, as amended, the Sales Tax Corporation issued Bonds Series A and B on July 31, 2007 (the ―Sales Tax Corporation Bonds") for the payment and retirement of a portion of the extra-constitutional debt outstanding at June 30, 2006. From the proceeds of the Sales Tax Corporation Bonds, the Bank received $1.7 billion on July 31, 2007 in partial payment of the outstanding extra- constitutional debt. The Sales Tax Corporation Bonds and any additional bonds issued by the Sales Tax Corporation will be payable from and secured by the Pledged Sales Tax.

On January 14, 2009, Act No. 91 was amended by Act No. 1 (―Act No. 1") to increase the Pledged Sales Tax to 2% of the Commonwealth's share of the sales and consumption tax. Furthermore, Act No. 1 amended Act No. 91 to allow the use of the proceeds of future bond issuances by the Sales Tax Corporation to (i) pay the Bank the $1,000 million Tax Receivables Anticipation Bonds issued by the Commonwealth during the first semester of fiscal year 2009 to cover a portion of the fiscal year 2009 deficit, (ii) pay principal and/or interest of loans granted by the Bank to the Commonwealth payable from future Commonwealth general obligation bonds and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have source of repayment or was payable from budgetary appropriations, (iii) pay a portion of accounts payable to suppliers of the Commonwealth, (iv) pay or finance the Commonwealth's operating expenses of fiscal years 2009, 2010 and 2011, (v) pay or finance the Commonwealth's operating expenses of fiscal year 2012 to the extent included in the annual budget of the Commonwealth, (vi) fund the Puerto Rico Economic Stimulus Fund created by Article 5 of Act No. 1, (vii) nourish the Puerto Rico Commonwealth Emergency Fund to cover expenditures resulting from catastrophic events, and (viii) fund the Economic Cooperation and Public Employees Alternative Fund.

Finally, Act No. 7 of March 9, 2009 amended Act No. 91, to increase the Pledged Sales Tax, effective July 1, 2009, by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax.

During fiscal year 2010, the Sales Tax Corporation issued additional revenue bonds from which proceeds the Bank collected $477.5 million in principal and $164.1 million in interest of certain loans granted to the Commonwealth and other public corporations and departments.

Also, loans granted to finance capital improvement programs of certain public entities are generally repaid from the proceeds of future bond issuances of these public entities or the Commonwealth. The public corporations and the Commonwealth have never defaulted on their respective bonds.

Although management of the Bank believes that no additional losses of principal and interest will be incurred by the Bank with respect to loans outstanding to the public sector at June 30, 2010, there can be no assurance that the director of the OMB will include amounts for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank by public sector entities requiring support, or that future proceeds from bond issuances by the Sales Tax Corporation will be sufficient to cover the outstanding amount of extra-constitutional debt at June 30, 2010. Also, the participation of certain public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions. Because of the relationship among the Bank, the public sector entities, the director of the OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be provided to certain entities in repaying their loans cannot be reasonably estimated by the Bank, accordingly, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans.

Loans to municipalities amounting to approximately $775.5 million at June 30, 2010 are collateralized by a pledge of a portion of property tax assessments of each municipality. These loans include bonds and notes issued by Puerto Rico municipalities which are acquired by the Bank as bridge financing until such financings can be packaged and securitized. Subsequently, from time to time, the Bank sells, at par, a selection of these bonds and notes to the Puerto Rico Municipal Finance Agency (―MFA”), a component unit of the Commonwealth organized to create a capital market to assist municipalities in financing their public improvements programs. These loans, when sold, are pledged to secure the debt service payments for the bonds issued by MFA. In addition, Act. No. 80, enacted on July 29, 2007, provides that a portion of the municipal sales tax will be deposited in special accounts with the Bank for the purpose of granting loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality. As of June 30, 2010, loans to municipalities repayable from these accounts amounted to approximately $400 million.

Loans recorded in the governmental funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses.

Allowance for Losses on Guarantees and Letters of Credit — Management of the Bank periodically evaluates the credit risk inherent in the guarantees and letters of credit on the same basis as loans are evaluated. The Bank charges as expense the amount required to cover estimated losses by establishing a specific allowance component for guarantees and letters of credit relating to loans in default, determined on the basis of the estimated future net cash outlays in connection with the related guarantees and letters of credit, and a general component for the risk inherent in the other guarantees and letters of credit outstanding, established as a percentage of the principal amount of the underlying loans, based on the Bank’s loss experience on financial guarantees and letters of credit, and management’s best judgment.

When a guarantee or letter of credit is honored, the Bank recognizes any disbursement as a nonperforming loan; therefore, no interest is accrued on the principal. After a specific analysis of the provision requirements, the related allowance included in the allowance for guarantees and letters of credit is reclassified to the allowance for loan losses. Any deficiency in the estimated allowance requirement is recorded as an additional provision to the allowance for loan losses.

The concentration of risk in the guarantees and letters of credit issued, predominantly those issued by the Tourism Development Fund (small number of large guarantees, geographical concentration in Puerto Rico, industry concentration in hotel and tourism), as well as the limited historical loss experience and other factors, compounds the uncertainty in management’s estimate of the allowance for losses on guarantees and letters of credit. As a result, the aggregate losses on guarantees and letters of credit ultimately incurred by the Bank may differ from the allowance for losses as reflected in the accompanying basic financial statements, and such differences may be material.

Pursuant to the legislation under which the Tourism Development Fund was created, the executive director of the Tourism Development Fund is required to certify each year to the director of the OMB the amount, if any, that is necessary to reimburse the Tourism Development Fund for disbursements made in the previous year, in connection with obligations guaranteed in excess of fees and charges collected on such guarantees (―net disbursements”). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the Tourism Development Fund, to modify the definition of net disbursements to include disbursements made by the Tourism Development Fund, for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the Tourism Development Fund. In addition, Act No. 173 provides that disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the executive director of the Tourism Development Fund determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a ―realized loss”). The director of the OMB has to include the amount subject to reimbursement in the general budget of the Commonwealth for the following fiscal year for the Legislature’s consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2010, there were no outstanding claims for reimbursements.

Debt Issue Costs — Debt issue costs are deferred and amortized, as a component of interest expense, over the term of the related debt using the effective interest method, or a systematic and rational method that approximates the interest method. Issuance costs of bonds accounted for in the governmental funds are recorded as expenditures when paid.

Real Estate Available for Sale — Real estate available for sale comprises properties acquired in lieu of payment and through foreclosure proceedings. It also includes loans that are treated as if the underlying collateral had been foreclosed because the Bank has taken possession of the collateral, even though legal foreclosure or repossession proceedings have not taken place. Those properties are carried at the lower of cost or fair value, which is established by a third party professional assessment or based upon an appraisal, minus estimated costs to sell. At the time of acquisition of properties in full or in partial satisfaction of loans, any excess of the loan balance over the fair value of the properties minus estimated costs to sell is charged against the allowance for loan losses. Subsequent declines in the value of real estate available for sale are charged to expenditure/expense. Gain or loss on sale related to real estate available for sale is included within revenues in the accompanying statement of revenues, expenditures and changes in fund balances and within noninterest income in the accompanying statement of revenues, expenses, and changes in net assets.

Allowance for Losses on Mortgage Loan Insurance — The allowance for losses on mortgage loan insurance is based on management’s evaluation of potential losses on insurance claims after considering economic conditions, fair value of related property and other pertinent factors. Such amount is, in the opinion of management, adequate to cover estimated future normal mortgage loan insurance losses. Actual losses for mortgage loan insurance are charged and recoveries, if any, are credited to the allowance for losses on mortgage loan insurance. Because of uncertainties inherent in the estimation process, management’s estimate of losses in the outstanding mortgage loans insurance portfolio and the related allowance may change in the near future.

Capital Assets — Capital assets, which include premises and equipment, are stated at cost less accumulated depreciation and amortization, and are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the Bank as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Depreciation is charged to operations and included within other noninterest expense, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred.

Estimated useful lives are as follows:

Building	40 years
Leasehold improvements	Lesser of 10 years or lease term
Information systems	3–5 years
Office furniture and equipment	5 years
Vehicles	5 years

Securities Sold Under Agreements to Repurchase — The Bank enters into sales of securities under agreements to repurchase. These agreements generally represent short-term financings and are reflected as a liability. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted.

Compensated Absences — The employees of the Bank are granted 30 days of vacation and 18 days of sick leave annually. Vacation and sick leave may be accumulated up to a maximum of 72 and 90 days, respectively. In the event of employee resignation, an employee is reimbursed for accumulated vacation and sick leave days up to the maximum allowed. The enterprise fund financial statements and the government-wide financial statements present the cost of accumulated vacation and sick leave as a liability. There are no employees paid by governmental funds.

Deferred Revenues — Deferred revenues at the governmental fund level arise when potential revenues do not meet the available criterion for recognition in the current period. Available is defined as due at June 30 and expected to be collected within 120 days thereafter to pay obligations due at June 30. Deferred revenues at the government-wide level arise only when the Bank receives resources before it has a legal claim to them.

Refundings — Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is recorded as an addition to or deduction from the new debt.

No-Commitment Debt — The Housing Finance Authority has issued notes and bonds in connection with the financing of low and moderate-income housing projects. Certain of the obligations issued by the Housing Finance Authority are considered no-commitment debt and are excluded, along with the related assets held in trust, from the accompanying basic financial statements. The Bank, the Housing Finance Authority and the Commonwealth, except for the assets held in trust and earnings thereon, are not liable directly or indirectly for the payment of such obligations.

Certain other collateralized obligations of the Housing Finance Authority are included in the accompanying basic financial statements either because they represent general obligations of the Housing Finance Authority or it maintains effective control over the assets transferred as collateral.

From time to time, the Public Finance Corporation issues bonds, the proceeds of which are used to purchase from the GDB Operating Fund promissory notes of the Commonwealth, and of certain of its instrumentalities and public corporations. The bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investments thereon, are payable solely from the pledge and assignment of amounts due on the notes. Principal and interest on the notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature. The underlying notes represent debt of the issuing instrumentalities. The bonds are considered no-commitment debt, and therefore neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

Governmental Funds — Reservations of Fund Balance — The governmental fund financial statements present reservations of fund balance for portions of fund balances that are legally segregated for a specific future use or are not available for other future spending.

Loan Origination Costs and Commitment Fees — GASB No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, requires that loan origination and commitment fees and direct origination costs be amortized over the contractual life of the related loan. The Bank generally recognizes commitment fees as income when collected and the related loan origination costs as expense when incurred. In the opinion of management, the difference between the two methods does not have a significant effect on the Bank's financial position and changes in financial position.

Transfers of Receivables — Transfers of receivables are accounted and reported as a sale if the Bank's continuing involvement with those receivable is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Bank's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the Bank, either in the transfer agreement or through other means, (ii) the Bank does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances, (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights, and (iv) the receivables and the cash resulting from their collection have been isolated from the Bank.

The Bank services loans for investors and receives servicing fees generally based on stipulated percentages of the outstanding principal balance of such loans. Loan servicing fees, late charges, and other miscellaneous fees are recognized as revenues as the related mortgage payments are collected, net of fees due to any third-party servicers. No servicing asset is recognized since fees are considered adequate compensation.

Future Adoption of Accounting Pronouncements — The GASB has issued the following Statements:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Type Fund Definitions*, which is effective for periods beginning after June 15, 2010.
- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*, which is effective for periods beginning after June 15, 2011.
- GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for periods beginning after June 15, 2010.

Management is evaluating the impact that these statements will have on the Bank's basic financial statements.

3. CASH AND DUE FROM BANKS, FEDERAL FUNDS SOLD, AND DEPOSITS PLACED WITH BANKS

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2010. Custodial credit risk is the risk that in the event of a financial institution failure, the Bank's deposits may not be returned to it. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of federal depository insurance. All securities pledged as collateral are held by the Secretary of the Treasury of the Commonwealth. The Bank does not have a formal policy for custodial credit risk for cash accounts opened with commercial banks outside Puerto Rico. These accounts are opened only with well-capitalized financial institutions.

The Bank' policies for deposits placed with banks and federal funds sold establish maximum exposure limits for each institution based on the institution's capital, financial condition and credit rating assigned by nationally recognized rating agencies. Deposits placed with banks of approximately $44.9 million mature within one year. Federal funds sold mature overnight and no collateral is required. As of June 30, 2010, $382,925,461 of the depository bank balance of $393,238,631 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	$ 15,328,530	$ 17,335,652	$ 7,022,482
Deposits placed with banks	44,902,978	44,902,979	44,902,979
Federal funds sold	331,000,000	331,000,000	331,000,000
Total	$ 391,231,508	$ 393,238,631	$ 382,925,461

Reconciliation to the government-wide statement of net assets (deficiency):

Unrestricted:	
Cash and due from banks	$ 6,121,959
Federal funds sold	331,000,000
Deposits placed with banks	32,639,067
Total unrestricted	369,761,026
Restricted:	
Cash and due from banks	9,206,571
Deposits placed with banks	12,263,911
Total restricted	21,470,482
Total	$ 391,231,508

4. INVESTMENTS

The Bank's investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations
- Certificates of deposit and time deposits
- Bankers' acceptances
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Federal funds sold
- Securities purchased under agreements to resell

- World Bank securities
- Mortgage-backed and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth of Puerto Rico
- Options, futures, and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or its equivalent by Moody's

The Bank's investment policies establish limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the investment committee and the board of directors of the Bank will determine, from time to time, other transactions that the Bank may enter into.

The Bank's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Bank's board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery vs. payment procedures.

The Bank's investment policies also provide that the Asset Liability Management Committee (ALCO) is responsible for implementing and monitoring the Bank's interest rate risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Bank's liquidity, capital adequacy, risk and profitability goals set by the Bank's board of directors.

The following table summarizes the type and maturities of investments held by the Bank at June 30, 2010. Investments by type in any one issuer representing 5% or more of total investments of either the Bank or its blended component units have been separately disclosed. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Investment Type	Within One Year	After One to Five Years	After Five to Ten Years	After Ten Years	Total
U.S. Treasury bills	$ 171,962,237	$ -	$ -	$ -	$ 171,962,237
U.S. Treasury notes	110,407,736				110,407,736
U.S. sponsored agencies notes:					
Federal National Mortgage Association ("FNMA")				1,470,874	1,470,874
Federal Home Loan Bank ("FHLB")	879,240,138	14,009,610			893,249,748
Federal Home Loan Mortgage Corporation ("FHLMC")	17,701,405	11,029,590			28,730,995
Federal Farm Credit Bank ("FFCB")	285,019,956	1,036,104			286,056,060
Mortgage-backed and asset-backed securities:					
Government National Mortgage Association ("GNMA")		3,542,684	3,559,192	479,570,424	486,672,300
FNMA			1,228,762	106,589,951	107,818,713
FHLMC		215,042	9,573,670	116,778,360	126,567,072
Other		1,430,982			1,430,982
Corporate debt:					
Popular, Inc.		98,500,000			98,500,000
Goldman Sachs		4,046,480			4,046,480
General Electric	3,100,800	2,887,788			5,988,588
Bank of America	25,151,628	-			25,151,628
Walmart Stores		2,102,760			2,102,760
External investment pools—					
Fixed-income securities	3,392,052,422				3,392,052,422
Nonparticipating investment contracts:					
American International Group				181,801,027	181,801,027
Other			17,628,800	92,983,344	110,612,144
U.S. municipal notes				24,025,000	24,025,000
Commonwealth agency bonds	-	3,530,000	-	51,228,728	54,758,728
Total investments	$ 4,884,636,322	$ 142,331,040	$ 31,990,424	$ 1,054,447,708	6,113,405,494
External investment pools:					
Equity securities:					
Russell 1000 Growth Common Trust Fund					11,828,848
Global Opportunities Capital Appreciation Fund					35,236,799
Preferred securities/interests:					
Grupo Hima San Pablo					3,289,583
Desarrolladora del Norte					50,000,000
Productos Avícolas del Caribe					4,500,000
Other					337,984
Total					$ 6,218,598,708
Reconciliation to the government-wide statement of net assets					
Unrestricted investments and investment contracts					$ 4,585,470,934
Restricted investments and investment contracts					1,633,127,774
Total					$ 6,218,598,708

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. These investments include $353,092,955 invested in the Puerto Rico Government Investment Trust Fund, a government-sponsored pool, which is administered by the Bank. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the value of the pool shares.

At June 30, 2010, from the total amount of $107,537,028 of the Bank's investment in corporate debt maturing over one year, $98,500,000 bear a variable interest rate resetting quarterly at 100% of an interest rate index plus a spread and $9,037,028 bear a fixed interest rate. Also, at June 30, 2010 approximately 71% of the Bank's investments in mortgage and asset-backed securities were held by trustees in connection with bonds issued by the Housing Finance Authority, the terms of which generally provide for early redemption of the bonds if the securities are early repaid.

All of the Bank's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA, at June 30, 2010 are as follows:

	Credit Risk				
	Rating				
Securities Type	**AAA to A-**	**BBB**	**B**	**Not Rated**	**Total**
U.S. sponsored agencies notes:					
FNMA	$ 1,470,874	$ -	$ -	$ -	$ 1,470,874
FHLB	893,249,748				893,249,748
FHLMC	28,730,995				28,730,995
FFCB	286,056,060				286,056,060
Mortgage-backed and asset-backed securities:					
FNMA	107,818,713				107,818,713
FHLMC	126,567,072				126,567,072
Other	1,430,982				1,430,982
Corporate debt	37,289,456		98,500,000		135,789,456
External investment pools — fixed-income securities	3,392,052,422				3,392,052,422
Nonparticipating investment contracts	278,507,044	13,906,127			292,413,171
U.S. municipal notes	24,025,000				24,025,000
Commonwealth agency bonds	4,902,659			49,856,069	54,758,728
Total	$5,182,101,025	$13,906,127	$98,500,000	$49,856,069	$5,344,363,221

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2010 of the counterparties with whom these contracts are entered into. The credit quality ratings of the counterparties should follow the ratings required by the investment policies of the Bank.

As of June 30, 2010, the Bank had pledged investments and investment contracts to secure the following:

Payment of principal and interest on obligations issued by a blended component unit	$ 722,449,404
Securities sold under agreements to repurchase	1,058,834,752
Certificates of indebtedness	11,800,000

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at June 30, 2010 consist of the outstanding balance of credit facilities granted to the following (in thousands):

	Governmental Activities	Enterprise Funds GDB Operating Fund (1)	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Public corporations and agencies	$ -	$4,979,070	$ -	$ -	$ -	$4,979,070
Municipalities		1,466,802				1,466,802
Allowance for loan losses		(9,550)				(9,550)
Total loans to public sector	-	6,436,322	-	-	-	6,436,322
Private sector		446	375,322	246,579	2,186	624,533
Allowance for loan losses		(264)	(55,763)	(28,970)		(84,997)
Deferred origination fees				(9,474)		(9,474)
Total loans to private sector	-	182	319,559	208,135	2,186	530,062
Balance — end of year	$ -	$6,436,504	$319,559	$208,135	$2,186	$6,966,384

(1) Excluding loans to component units.

Reconciliation to the government-wide statement of net assets:	
Unrestricted loans receivable — net	$6,949,596
Restricted loans receivable — net	16,788
Total	$6,966,384

For the year ended June 30, 2010, public sector loan originations and collections amounted to $3.3 billion and $2.9 billion, respectively.

Public sector loans amounting to approximately $2,043 million as of June 30, 2010 were delinquent by 90 days or more or had matured. Public sector loans classified as non-accrual amounted to approximately $57 million at June 30, 2010. Interest income that would have been recorded if such non-accrual loans had been accruing in accordance with their original terms was approximately $1.9 million in 2010. Interest collected on these loans during the year ended June 30, 2010 amounted to $21,000.

At June 30, 2010, loans to public corporations and agencies of the Commonwealth amounting to approximately $4,979,070 were repayable from the following sources (in thousands):

Repayment Source	Amount
Proceeds from future issuances of Commonwealth's general obligation bonds	$1,125,459
Other — including future legislative appropriations and proceeds from future bond issuances from public entities other than the Commonwealth	3,853,611
Total	$4,979,070

The Commonwealth's general fund budget for fiscal year 2011 includes appropriations to cover the first year of a schedule proposed by the Bank to repay principal of, and interest on public sector loans whose repayment source was originally from the FIA Fund and from future issuances of Commonwealth's general obligations bonds. This schedule provides for a period of amortization of eight and 30 years, at contractual interest rates. The Bank will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval, the amount established in the schedule for each subsequent fiscal year and expects that future appropriations will be approved by the legislature of the Commonwealth to comply with such schedule.

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, the Bank's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the Bank's assets. Loans to the Commonwealth and its departments and agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit, which loans are payable from the FIA Fund, uncollected taxes and from annual appropriations made by the legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $5 billion or 35.4% of the Bank's government-wide total assets at June 30, 2010.

Many of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition. During fiscal years 2003 to 2009, the Commonwealth's recurring expenditures exceeded its recurring revenues. These shortfalls were partially covered with loans from the Bank and other non-recurring revenues. In addition, the Commonwealth has preliminary estimated that it expenditures will exceed its revenues for fiscal years 2010 and 2011. During fiscal years 2003, 2004, 2005, 2006 and 2008, the Bank granted loans to the Commonwealth for $250 million, $233 million, $550 million, $741 million, and $190 million, respectively, to cover part of the Commonwealth's deficit. As of June 30, 2010, the outstanding principal amount of loans granted to finance the Commonwealth's budget deficit was $230 million.

During fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public corporations, GDB has entered into fiscal oversight agreements with such public corporations. The agreements require the public corporations, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public corporations, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public corporations, so that the public corporations may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. GDB's agreement to provide current financing and any future financing is expressly conditioned upon the public corporations' compliance with the covenants established in the fiscal oversight agreement and GDB's right to monitor and enforce such compliance. These agreements will be in effect until the public corporations have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public corporations' operations and financial condition.

Also, as part of its role of providing financing to the Commonwealth and its instrumentalities to further the economic development of Puerto Rico, and as part of its risk management activities, the Bank is renegotiating and/or restructuring payment terms of the loans to certain governmental entities. Some of the renegotiations/restructurings extend the period for principal repayment but provide for repayment of the contractual interest in accordance with the original terms.

In addition, due mainly to the Commonwealth’s financial situation, in May 2005, Moody’s Investors Service (―Moody’s”) and Standards & Poor’s Rating Services (―S&P”) each announced downgrades to the Commonwealth’s credit ratings. Moody’s and S&P lowered the rating on the Commonwealth’s appropriation debt to ―Baa1” and ―BBB,” respectively. On February 24, 2006, Moody’s lowered the Commonwealth’s rating to Baa2 and placed it on Watchlist with negative implications. On March 22, 2006, S&P kept the Commonwealth’s rating on BBB and placed it on CreditWatch with negative implications. On May 8, 2006, Moody’s further downgraded the Commonwealth’s appropriation debt rating from Baa2 to Baa3 and kept the ratings on Watchlist. On July 20, 2006, S&P confirmed its BBB rating on the Commonwealth appropriation debt, removed the rating from CreditWatch, however the outlook remained with negative implications. On July 21, 2006, Moody’s confirmed its Baa3 rating on the Commonwealth’s appropriation debt and removed the rating from Watchlist; however the outlook remained with negative implications. In May 2007, S&P lowered the Commonwealth’s rating to BBB-, however changed the outlook to stable. Also, in May 2007, Moody’s confirmed its Baa3 rating on the Commonwealth’s appropriation debt with negative outlook. On November 6, 2007, Moody’s changed the rating outlook of the Commonwealth from negative to stable. In July 2009, S&P confirmed its BBB- rating and changed the outlook to stable. On April 19, 2010, Moody’s announced the results of the recalibration of certain U.S. municipal bond issues and issuers to enhance the comparability of credit ratings across its portfolio of rated securities. As result of this recalibration, the Commonwealth’s general obligation debt was rated A3 with a stable outlook. On August 10, 2010, Moody’s reaffirmed its A3 rating on the Commonwealth’s general obligation bonds; however, changed its outlook on the credit from stable to negative, indicating that the unfunded status of the Puerto Rico Government Employee Retirement System represents a challenge that could affect Puerto Rico’s credit rating in the future.

In an effort to address the Commonwealth’s structural budget imbalance, the legislature enacted Act No. 117 of July 4, 2006 (―Act No. 117”), which amended the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a general sales and consumption tax of 5.5% (the ―Sales Tax”) to be imposed by the Commonwealth. Act No. 117 also eliminated the 5% general excise tax imposed on imported goods and the 3.6% general excise tax on goods manufactured in Puerto Rico, and provides certain income tax reductions to taxpayers. The Sales Tax was effective on November 15, 2006.

The Legislature enacted on May 13, 2006 Act No. 91, which created the FIA Fund, as a separate fund to be administered by the Department of the Treasury of the Commonwealth and GDB. The FIA Fund will generate revenues from collections of the first one percent of the Sales Tax. Such revenues shall be used for, among other, paying, refinancing or restructuring the extra-constitutional debt of the Commonwealth that was outstanding at June 30, 2006. Public sector loans to the Commonwealth, its agencies and instrumentalities that do not have the full faith and credit of the Commonwealth are considered extra-constitutional debt. As of June 30, 2010, approximately $781 million of public sector loans are considered extra-constitutional.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56, enacted on July 6, 2007, to create the Puerto Rico Sales Tax Financing Corporation (the ―Sales Tax Corporation”) as an independent governmental instrumentality that will own and hold the FIA Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91 ownership of the FIA Fund, was transferred to the Sales Tax Corporation.

On July 31, 2007, the Sales Tax Corporation issued $2,668 million 2007 Series A bonds, and $1,333 million 2007 Series B bonds for, among other, the payment and retirement of a portion of the extra-constitutional debt owed to the Bank and the Public Finance Corporation, which was outstanding as of June 30, 2006. The Bank received $1.7 billion in partial payment of its public sector loans considered extra-constitutional debt.

On January 14, 2009, Act No. 91 was amended by Act No. 1 (–Act No. 1") to increase the Pledged Sales Tax to 2% of the Commonwealth's share of the sales and consumption tax. Furthermore, Act No. 1 amended Act No. 91 to allow the use of the proceeds of future bond issuances by the Sales Tax Corporation to (i) pay the Bank the $1,000 million Tax Receivables Anticipation Bonds issued by the Commonwealth during the first semester of fiscal year 2009 to cover a portion of the fiscal year 2009 deficit, (ii) pay principal and/or interest of loans granted by the Bank to the Commonwealth payable from future Commonwealth general obligation bonds and any debt of the Commonwealth outstanding as of December 31, 2008 that did not have source of repayment or was payable from budgetary appropriations, (iii) pay a portion of accounts payable to suppliers of the Commonwealth, (iv) pay or finance Commonwealth's operating expenses of fiscal years 2009, 2010 and 2011, (v) pay or finance the Commonwealth's operating expenses of fiscal year 2012 to the extent included in the annual budget of the Commonwealth, (vi) fund the Puerto Rico Economic Stimulus Fund created by Article 5 of Act No. 1, (vii) nourish the Puerto Rico Commonwealth Emergency Fund to cover expenditures resulting from catastrophic events, and (viii) fund the Economic Cooperation and Public Employees Alternative Fund.

Finally, Act No. 7 of March 9, 2009 amended Act No. 91, to increase the Pledged Sales Tax, effective July 1, 2009, by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax. In addition, Act. No. 7 created an integrated plan for the Commonwealth's fiscal stabilization that includes: (i) operating expense-reduction measures, including various workforce reduction initiatives and a temporary freeze of salary increases and other economic benefits included in certain laws and collective bargaining agreements; (ii) tax revenue enforcement measures; (iii) a combination of permanent and temporary tax increases, and (iv) other financial measures, including the increase of the Pledged Sales Tax.

During fiscal year 2010, the Sales Tax Corporation issued additional revenue bonds from which proceeds the Bank collected $477.5 million in principal and $164.1 million in interest of certain loans granted to the Commonwealth and other public corporations and departments.

Although the Commonwealth is using its best efforts to maximize revenues and reduce expenditures, there can be no assurance that its future revenues will be greater than its expenditures.

Based on previous experience and recent developments, management of the Bank believes that the carrying amount of the loans to the public sector will be collected (including interest at the contracted rate), and, accordingly, no additional allowance for losses for loans to the public sector is needed at June 30, 2010.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank and the Development Fund to private enterprises in Puerto Rico, the activities of which are deemed to further the economic development of Puerto Rico. They also include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico, and direct loans to tourism projects. These credit facilities, net of allowance for loan losses, amounted to approximately $530 million at June 30, 2010 of which approximately $195 million are mortgage loans for low and moderate-income housing units and approximately $320 million are for tourism projects.

Private sector loans classified as non-accrual amounted to approximately $190.6 million at June 30, 2010. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $4.8 million in 2010. No interest was collected on these loans for the year ended June 30, 2010.

The following is a summary of private sector loans of the enterprise funds considered to be impaired as of June 30, 2010, and the related interest income for the year then ended (in thousands):

	Enterprise Funds			
	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total
Recorded investment in impaired loans:				
Not requiring an allowance for loan losses	$ 142	$ -	$ -	$ 142
Requiring an allowance for loan losses	264	65,974	128,041	194,279
Total recorded investment in impaired loans	$ 406	$ 65,974	$ 128,041	$ 194,421
Related allowance for loan losses	$ 264	$ 27,232	$ 55,763	$ 83,259
Average recorded investment in impaired loans	406	56,109	126,520	183,035
Interest income recognized on impaired loans	-	-	-	-

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2010 (in thousands):

		Enterprise Funds			
	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Total
Balance — beginning of year	$ 529	$ 9,814	$ 20,483	$ 52,424	$ 83,250
Provision for loan losses			10,001	3,339	13,340
Transfer to enterprise funds	(529)		529		-
Net charge-offs			(2,043)		(2,043)
Balance — end of year	$ -	$ 9,814	$ 28,970	$ 55,763	$ 94,547

6. DUE FROM FEDERAL GOVERNMENT

Under the New Secure Housing Program (the ―Program"), the Housing Finance Authority is responsible for administering the Program, including contracting, supervising and paying the designers, inspectors, and legal services needed for the Program. The Authority also provides all the funding for the Program through a $67 million non-revolving line of credit with the Bank. The Department of Housing is responsible for land acquisitions, auctioning projects, awarding construction contracts, qualifying participants, and selling housing units to eligible participants.

Under the terms of the grant, the construction of, and relocation of participants, into new secure housing facilities was to be completed by December 31, 2007. In addition, FEMA would reimburse 75% of the allowable costs of the Program. Funds collected under the Program since its inception amounted to approximately $113 million and are subject to compliance audits under OMB Circular A-133 and federal granting agencies audits.

In April 2007, FEMA discontinued reimbursing the Housing Finance Authority's allowable costs based on the Program's noncompliance with the scheduled dates for construction activities and case management. The Department of Housing requested a one-year extension up to December 31, 2008, and although original request was denied, FEMA granted such request in 2007.

On June 6, 2008, the Department of Housing requested an additional one-year extension up to December 31, 2009, for the completion of the construction and relocation of participants into new secure housing facilities. On July 1, 2008, FEMA denied the additional one-year extension. The Department of Housing requested through the Governor's Authorized Representative (GAR) on September 19, 2008, a reconsideration of FEMA's decision not to grant the extension. On December 23, 2008, FEMA granted an extension up to June 30, 2010.

Although significant progress was made through June 30, 2010 in the construction activities and in the case management of the Program, the Housing Finance Authority was not able to fully comply with the terms of the extension granted by FEMA. Based on this and the fact that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $26 million due from the FEMA.

In addition, on February 17, 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law in the United States of America. The purpose of ARRA is to jumpstart the nation's ailing economy, with the primary focus on creating and saving jobs in the near term and investing in infrastructure that will provide long-term economic benefits. The Authority expended $86.6 million of ARRA program funds of which $21.9 million are due from the federal government at June 30, 2010. These funds represent project costs incurred as of June 30, 2010.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2010, consisted of the following:

	Enterprise Funds		
	GDB Operating Fund	Housing Finance Authority	Total
Residential (1–4 units)	$ -	$ 3,444,426	$ 3,444,426
Commercial	218,147,350	6,764,607	224,911,957
Valuation allowance	(13,121,013)	(7,443,470)	(20,564,483)
Total real estate available for sale	$ 205,026,337	$ 2,765,563	$ 207,791,900

Reconciliation to the government-wide statement of net assets (deficiency):

Unrestricted real estate available for sale	$ 206,452,231
Restricted real estate available for sale	1,339,669
Total	$ 207,791,900

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2010:

	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 6,438,081	$ 1,194,035	$ 106,028	$ 7,738,144
Transfer to enterprise funds	(6,438,081)		6,438,081	-
Provision for possible losses		11,926,978	1,277,700	13,204,678
Write-offs	-	-	(378,339)	(378,339)
Balance — end of year	$ -	$ 13,121,013	$ 7,443,470	$ 20,564,483

During fiscal year 2009, the Bank entered into an agreement with an agency of the Commonwealth whereby the Bank received several properties with appraised values (based on appraisals made near the transaction date) of $155.9 million in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. Management of the Bank has obtained appraisals of the properties subsequent to December 30, 2008, which has resulted in a decrease in the appraised values of certain of such properties net of estimated selling costs, of approximately $29.9 million, which have been recorded as a reduction of the carrying value of the properties (included within real estate available for sale in the accompanying statement of net assets) and a receivable from the Commonwealth's agency (included within other assets in the accompanying statement of net assets). The interagency agreement provides that the agency of the Commonwealth shall transfer to the Bank additional properties to cover any deficiency in the properties values during a period of five years. Management of the Bank is of the opinion that it will receive properties or cash to cover the unrealized deficiency before the established period and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth's agency is needed at June 30, 2010.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets not being depreciated — land	$ 2,845,005	$ -	$ (5)	$ 2,845,000
Capital assets being depreciated:				
Building	8,988,048	-	-	8,988,048
Leasehold improvements	4,017,966	411,204	-	4,429,170
Information systems	3,208,527	593,245	(93,998)	3,707,774
Office furniture and equipment	2,722,277	105,941	(140,425)	2,687,793
Software	3,473,645	49,040	-	3,522,685
Vehicles	223,125	-	(6,006)	217,119
Total capital assets being depreciated	22,633,588	1,159,430	(240,429)	23,552,589
Less accumulated depreciation and amortization for:				
Building	(1,909,959)	(224,701)	-	(2,134,660)
Leasehold improvements	(1,358,320)	(388,519)	-	(1,746,839)
Information systems	(1,690,944)	(871,470)	93,998	(2,468,416)
Office furniture and equipment	(1,625,414)	(464,447)	140,425	(1,949,436)
Software	(1,267,463)	(896,510)	-	(2,163,973)
Vehicles	(174,235)	(16,299)	6,006	(184,528)
Total accumulated depreciation and amortization	(8,026,335)	(2,861,946)	240,429	(10,647,852)
Total capital assets being depreciated — net	14,607,253	(1,702,516)	-	12,904,737
Total capital assets — net	$17,452,258	$(1,702,516)	$ (5)	$ 15,749,737

9. DEPOSITS

Deposits consist predominantly of interest-bearing demand accounts, special government deposit accounts, and time deposits from the Commonwealth, its agencies, instrumentalities, and municipalities. Interest expense on these deposits amounted to approximately $107.5 million in 2010.

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The following is selected information concerning securities sold under agreements to repurchase:

Carrying amount at June 30, 2010	$ 1,058,834,752
Maximum amount outstanding at any month-end	1,248,002,609
Average amount outstanding during the year	971,495,275
Weighted average interest rate for the year	2.60%
Weighted average interest rate at year-end	2.25%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2010:

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 859,053,110	$5,690,429,641	$5,490,647,999	$1,058,834,752

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2010, the total amount of securities sold under agreements to repurchase mature within one year.

11. CERTIFICATES OF INDEBTEDNESS

Certificates of indebtedness consist of time deposits from corporations that have grants of tax exemptions under the Commonwealth's industrial incentives laws. The following summarizes the certificates of indebtedness activity for the year ended June 30, 2010:

	Beginning Balance	Issuances	Maturities	Ending Balance	Due Within One Year
GDB Operating Fund	$ 11,800,000	$ -	$ -	$ 11,800,000	$ 7,500,000

At June 30, 2010, certificates of indebtedness amounting to approximately $7.5 million contractually mature during the fiscal year ending June 30, 2011 and approximately $4.3 million contractually mature during the fiscal year ending June 30, 2012.

12. BONDS, NOTES, AND MORTGAGE-BACKED CERTIFICATES PAYABLE, AND OTHER LIABILITIES

The activity of bonds payable and other borrowed funds for the year ended June 30, 2010 is as follows:

	Beginning Balance	Debt Issued	Debt Paid	Reductions	Ending Balance	Due Within One Year
Governmental activities — Commonwealth appropriation bonds and notes — note payable — AHMSP Stage 7	$4,811,237	$ -	$ -	$ -	$4,811,237	$ -

	Beginning Balance	Issuances, Net	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
GDB Operating Fund:					
Remarketed Refunding Bonds	$ -	$ 267,000,000	$ -	$ 267,000,000	$ -
Senior Notes 2006 Series B	501,105,000		(72,450,000)	428,655,000	63,295,000
Senior Notes 2006 Series C	81,960,000			81,960,000	
Senior Notes 2008 Series A	744,533,000		(173,000,000)	571,533,000	
Senior Notes 2008 Series B	285,467,000		(90,000,000)	195,467,000	
Senior Notes 2009 Series A	250,000,000			250,000,000	
Senior Notes 2009 Series B	200,000,000			200,000,000	
Senior Notes 2009 Series C		1,013,200,000		1,013,200,000	53,427,000
Senior Notes 2009 Series D		342,876,000		342,876,000	41,718,000
Unamortized premium	9,660,304	-	(2,594,911)	7,065,393	174,189
Total GDB Operating Fund	2,072,725,304	1,623,076,000	(338,044,911)	3,357,756,393	158,614,189
Housing Finance Authority:					
Mortgage Trust III	947,393,874		(43,060,000)	904,333,874	42,530,000
Revenue bonds and mortgage-backed certificates:					
Single Family Mortgage Revenue Bonds, Portfolio IX	119,290,000		(11,995,000)	107,295,000	2,245,000
Single Family Mortgage Revenue Bonds, Portfolio X	80,030,000		(6,405,000)	73,625,000	1,255,000
Single Family Mortgage Revenue Bonds, Portfolio XI	200,000,000		(181,090,000)	18,910,000	300,000
Homeownership Mortgage Revenue Bonds 2000	52,420,000		(4,515,000)	47,905,000	1,085,000
Homeownership Mortgage Revenue Bonds 2001	55,610,000		(5,390,000)	50,220,000	1,250,000
Homeownership Mortgage Revenue Bonds 2003	25,720,000		(2,405,000)	23,315,000	590,000
Mortgage-Backed Certificates 2006 Series A	132,081,815		(11,822,523)	120,259,292	18,350,173
Total revenue bonds and mortgage-backed certificates	665,151,815	-	(223,622,523)	441,529,292	25,075,173
Subtotal	1,612,545,689	-	(266,682,523)	1,345,863,166	67,605,173
Notes payable to GDB	1,597,006	2,785,259	(886,679)	3,495,586	
Special Obligation Notes 2010 Series A	-	15,000,000		15,000,000	
Plus unamortized premium	551,694		(53,441)	498,253	
Less unaccreted discount and deferred loss on refundings	514,505,224	7,350,000	(33,772,655)	488,082,569	
Total Housing Finance Authority	1,100,189,165	10,435,259	(233,849,988)	876,774,436	67,605,173
Tourism Development Fund:					
Participation agreement payable	26,000,000			26,000,000	
Notes payable to GDB	246,277,852	124,742,380	(8,240,024)	362,780,208	8,400,000
Total Tourism Development Fund	272,277,852	124,742,380	(8,240,024)	388,780,208	8,400,000
Public Finance Corporation — note payable to GDI	101,323,890		(101,323,890)	-	-
Total	3,546,516,211	1,758,253,639	(681,458,813)	4,623,311,037	234,619,362
Less intrafund eliminations	(488,657,624)	(127,527,639)	99,080,023	(517,105,240)	(8,400,000)
Total business-type activities	$3,057,858,587	$1,630,726,000	$(582,378,790)	$4,106,205,797	$226,219,362

The annual debt service requirements to maturity, including principal and interest, for long-term debt, (excluding notes payable by component units to the Bank) as of June 30, 2010, are as follows:

Year Ending June 30,	GDB Operating Fund Business-Type Activities Principal	GDB Operating Fund Business-Type Activities Interest
2011	$ 158,440,000	$ 174,213,047
2012	615,065,000	157,019,974
2013	392,406,000	130,488,040
2014	414,285,000	110,663,399
2015	615,577,000	75,704,196
2016–2022	1,154,918,000	205,971,597
Total	$ 3,350,691,000	$ 854,060,253

Year Ending June 30,	Housing Finance Authority			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2011	$ -	$ 256,831	$ 67,605,173	$ 22,289,497
2012		261,554	59,629,153	21,282,980
2013		201,452	58,391,987	20,465,843
2014	95,757	217,922	54,447,255	19,640,525
2015	89,306	215,785	51,253,319	19,867,668
2016–2020	562,166	962,436	250,489,120	86,826,494
2021–2025	454,477	760,689	118,022,754	64,732,625
2026–2030	2,491,101	532,381	599,163,299	41,650,242
2031–2035	1,118,430	20,719	84,731,106	13,125,445
2036–2040			17,130,000	1,675,624
Total	$ 4,811,237	$ 3,429,769	$ 1,360,863,166	$ 311,556,943

Year Ending June 30,	Tourism Development Fund (1) Business-Type Activities Principal	Tourism Development Fund (1) Business-Type Activities Interest
2011	$ -	$ 740,106
2012		740,106
2013		740,106
2014		740,106
2015		740,106
2016–2019	26,000,000	2,220,317
Total	$ 26,000,000	$ 5,920,847

(1) Debt service requirements of this variable-rate debt assume that the interest rate effective at June 30, 2010 remains the same throughout the term of the debt.

Governmental Activities — Bonds and notes payable by governmental activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Note payable Affordable Housing Mortgage Subsidy Program Stage 7 — due on July 1, 2014 and each July 1, thereafter to July 1, 2031	4.10%–5.25%	$4,811,237

Note Payable to Puerto Rico Public Finance Corporation — On December 27, 2001, the Housing Finance Authority entered into a loan agreement (the “Note”) with the GDB Operating Fund to refinance the Affordable Housing Mortgage Subsidy Program Stage 7 note payable (the “Old Note”) of the Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Public Finance Corporation acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds (“PFC Bonds”). The PFC Bonds were issued under a trust indenture whereby the Public Finance Corporation pledged and sold the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold. The notes payable to the Public Finance Corporation were originally composed of a loan granted by the Bank, which, pursuant to Act No. 164 of December 17, 2001, the Public Finance Corporation acquired and restructured through the issuance of Commonwealth appropriation bonds. These bonds were issued under trust indenture agreements whereby the Public Finance Corporation pledged the notes to certain trustees and created a first lien on the pledged revenue (consisting of annual Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

During June 2004, the Public Finance Corporation advance refunded a portion of certain of its outstanding Commonwealth appropriation bonds issued in 2001 under Act No. 164 of December 17, 2001. The Housing Finance Authority recognizes a mirror effect of this advance refunding by the Public Finance Corporation in its own notes payable in proportion to the portion of the Housing Finance Authority’s notes payable included in the Public Finance Corporation refunding. The aggregate debt service requirements of the refunding and unrefunded notes will be funded with annual appropriations from the Commonwealth.

The Note’s outstanding balance at June 30, 2010 was $4,811,237 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by Public Finance Corporation on all the PFC Bonds issued by Public Finance Corporation under Act No. 164.

Business-Type Activities — Bonds, notes and mortgage-backed certificates payable of business-type activities consist of the following:

Description and Maturity Date	Interest Rate	Amount Outstanding
Remarketed Refunding Bonds —December 1, 2015	4.75 %	$ 267,000,000
GDB Senior Notes :		
Series 2006 B — Each December 1 until December 1, 2017	5.00	433,839,216
Series 2006 C — January 1, 2015	5.25	83,841,177
Series 2008 A — Each February 1 from 2012 to 2019	5.50–6.50	571,533,000
Series 2008 B — Each February 1 from 2012 to 2019	5.50–6.50	195,467,000
Series 2009 A — Each February 1 from 2012 to 2019	5.50–6.50	250,000,000
Series 2009 B — February 1, 2012	5.50	200,000,000
Series 2009 C — Each February 1 from 2011 to 2022	2.50–6.00	1,013,200,000
Series 2009 D — Each February 1 from 2011 to 2022	2.50–6.00	342,876,000
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2011	Zero Coupon	38,940,796
Each July 1 and January 1 until January 1, 2021	Zero Coupon	246,640,811
Single Family Mortgage Revenue Bonds — Portfolio IX each December 1 and June 1 until December 1, 2012	3.85–5.60	107,295,000
Single Family Mortgage Revenue Bonds — Portfolio X each December 1 and June 1 until December 1, 2037	4.15–5.65	73,625,000
Single Family Mortgage Revenue Bonds — Portfolio XI each December 1 and June 1 until December 1, 2039	2.60–5.45	18,910,000
Mortgage-Backed Certificates, 2006 Series A September 29, 2026 through August 29, 2030	2.955–6.560	107,845,171
Homeownership Mortgage Revenue Bonds 2000 Series — each June 1 and December 1 until December 1, 2032	4.25–5.20	47,905,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.50–4.70	3,930,000
June 1, 2013 and each December 1 and June 1 thereafter until December 1, 2032	4.45–5.50	46,290,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	3.55–4.00	2,485,000
June 1, 2013 and each December 1 and June 1 thereafter until December 1, 2033	4.375–4.875	20,830,000
Special Obligation Notes, 2010 Series A — May 1, 2040	6.974	7,752,626
Total		$ 4,080,205,797

Remarketed Refunding Bonds — On August 1, 2008, the Bank repurchased the $267 million outstanding balance of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. On December 30, 2009, the Bank remarketed and reissued these bonds at a fixed rate of 4.75%, maturing on December 1, 2015. These notes are subject to redemption at the option of the Bank on or after June 1, 2013 at a redemption price of 101% through May 31, 2014 and 100% after June 1, 2014.

GDB Senior Notes, 2009 Series C — On December 30, 2009, the Bank issued $1,013,200,000 of Senior Notes, 2009 Series C (the ―2009 Series C Notes"). The 2009 Series C Notes consist of term notes maturing on various dates from February 1, 2011 to February 1, 2022, and carrying fixed interest rates ranging from 2.50% to 6.00%. The 2009 Series C Notes (other than the 2009 Series C Notes maturing on February 1, 2011) are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2011, and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes, 2009 Series D — On January 8, 2010, the Bank issued $342,876,000 of Senior Notes, 2009 Series D (the ―2009 Series D Notes”). The 2009 Series D Notes consist of term notes maturing on various dates from February 1, 2011 and February 1, 2022, and carrying fixed interest rates ranging from 2.50% to 6.00%. The 2009 Series D Notes (other than the 2009 Series D Notes maturing on February 1, 2011) are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2011, and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

Special Obligation Notes, 2010 Series A — On October 22, 2009, the Housing Finance Authority issued $15,000,000 of Special Obligation Notes, 2010 Series A. These notes are collateralized by certain second mortgage loans originated under the Home Purchase Stimulus Program. The notes will be repaid from collections of principal and interest of the underlying collateral, net of servicing and guarantee fees. The second mortgage loans are guaranteed by the Authority’s Act 87 insurance.

Participation Agreement Payable — On April 10, 2006, the Tourism Development Fund entered into a debt restructuring agreement with Hotel Dorado, S.E. (the ―Hotel”) whereby the Tourism Development Fund, as guarantor of the Hotel’s AFICA bonds, accelerated the AFICA bonds payment in exchange for a note receivable of $26 million (the ―Note”) from the Hotel. In addition, on April 10, 2006, the Tourism Development Fund entered into a participation agreement with a financial institution whereby the Tourism Development Fund transferred a 100% participation (the ―Participation”) in the Note.

The Participation is subject to recourse and the Tourism Development Fund is obligated to purchase the loan from the financial institution upon the occurrence and during the continuance of an event of default under the participation agreement. The participation agreement also stipulates that the financial institution cannot sell, pledge, transfer, assign or dispose of the Participation without the Tourism Development Fund’s consent. Accordingly, the Tourism Development Fund has recorded the Note as part of loans receivable and has recorded a participation agreement payable (i.e. a collateralized borrowing) in the accompanying balance sheet — enterprise funds.

The Participation bears a variable interest rate, based on the three-month LIBOR plus 2.50%, until maturity. Interest is payable on a quarterly basis. In August 2008, The Tourism Development Fund agreed to extend the maturity to July 1, 2018 and approved a conditional-commitment to provide a guarantee for a permanent loan to be provided by the financial institution upon completion of the construction of some amenities and subject to compliance with certain conditions. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $26 million as of June 30, 2010.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2010 follows:

Balance — beginning of period	$ 5,563,382
Additions	3,757,713
Reductions	(2,037,468)
Balance — end of period	$ 7,283,627

The activity for compensated absences included within accounts payable and accrued liabilities, during the year ended June 30, 2010 follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$2,564,636	$2,731,335	$2,570,368	$2,725,603	$2,207,738
Sickness	2,659,687	1,674,793	1,657,298	2,677,182	669,296
Total	$5,224,323	$4,406,128	$4,227,666	$5,402,785	$2,877,034

Compensated absences are available to be liquidated by the employees during the year.

13. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

The Housing Finance Authority is required by law to maintain an allowance for losses on insured mortgage loans, which is computed as a percentage of the outstanding principal balance of the insured mortgage loans. Losses incurred upon the foreclosure and subsequent gains or losses on the disposal of properties are credited/charged to the allowance for losses on mortgage loan insurance. At June 30, 2010, the Housing Finance Authority had restricted net assets for such purposes of approximately $61.9 million.

14. TERMINATION BENEFITS

On May 28, 2010, the Bank announced to its employees a termination plan (the ―Plan"), as approved by the Bank's board of directors. The Plan included the elimination of approximately 21 career management positions due to the relocation and centralization of functions and consolidation of departments. The Plan establishes a ranking where payment of termination benefits is based on years of service at the Bank. For employees who are involuntarily terminated, the plan states that they will receive the compensation provided for in Article 9.10 of the Personnel Regulations Manual, in addition to the liquidation of vacation and sick leave balances. If the employee signs a voluntary termination agreement, the Bank offers an improved termination benefit, which includes the payment of medical plan benefits for a period of one year and the following:

- For employees with less than five years of service at the Bank, the payment is two months of salary plus one week for each year of service.
- For employees with five years to fourteen years of service at the Bank, the payment is three months of salary plus two weeks for each year of service.
- For employees with fifteen years of service and older at the Bank, the payment is six months of salary plus three weeks for each year of service.

The voluntary termination agreement includes a clause of no re-employment with the Bank for a period of five years.

In addition, the Plan was offered to all employees, including unionized employees, who were interested in voluntary termination of employment and take advantage of the same benefits that were offered to the employees that were involuntarily terminated and signed the voluntary separation agreement. The total number of employees who were involuntarily terminated was 17 and the total number of employees who voluntarily separated from employment was 21. As of June 30, 2010, the total reserve for these termination benefits was approximately $3.6 million. This amount was not discounted since the Bank expects to pay these benefits within the next fiscal year.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank is party to transactions involving financial instruments with off-balance-sheet risk, to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying statement of net assets and fund balance sheets. These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Bank's exposures to credit loss for lending commitments, financial guarantees, and letters of credit are represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank, as applicable, evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty. Collateral held varies but may include property, plant, and equipment, and income-producing commercial properties. Standby letters of credit and financial guarantees are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

At June 30, 2010, the off-balance-sheet risks consisted of the following (in thousands):

Financial instruments whose credit risk is represented by contractual amounts:	
Financial guarantees:	
Public sector	$ 52,000
Private sector	146,225
Total	$ 198,225
Standby letters of credit:	
Public sector	$ 674,970
Private sector	2,120
Total	$ 677,090
Commitments to extend credit:	
Public sector	$ 1,968,586
Private sector	62,406
Total	$ 2,030,992

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2010:

	Beginning Balance	Provision	Payments	Ending Balance	Due Within One Year
GDB Operating Fund	$ 1,000,000	$ -	$ -	$ 1,000,000	$ -
Tourism Development Fund	7,281,000	14,003,600		21,284,600	2,529,919
Development Fund	3,089,874	3,457,452	4,056,522	2,490,804	1,546,540
Total	$ 11,370,874	$ 17,461,052	$ 4,056,522	$ 24,775,404	$ 4,076,459

16. RETIREMENT SYSTEM

Defined Benefit Pension Plan — The Employees' Retirement System of the Government of the Commonwealth of Puerto Rico (the ―Retirement System"), created pursuant to Act No. 447 of May 15, 1951, as amended, is a cost-sharing, multiple-employer, defined benefit pension plan sponsored by and reported as a component unit of the Commonwealth. All regular employees of the Bank hired before January 1, 2000 and less than 55 years of age at the date of employment became members of the Retirement System as a condition of their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The Retirement System provides retirement, death, and disability benefits pursuant to legislation enacted by the Legislature. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after 10 years of plan participation. Disability benefits are available to members for occupational and nonoccupational disabilities. However, a member must have at least 10 years of service to receive nonoccupational disability benefits.

Members who have attained 55 years of age and have completed at least 25 years of creditable service, or members who have attained 58 years of age and have completed 10 years of creditable service, are entitled to an annual benefit payable monthly for life. The amount of the annuity shall be 1.5% of the average compensation, as defined, multiplied by the number of years of creditable service up to 20 years, plus 2% of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years. In no case will the annuity be less than $200 per month.

Participants who have completed 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65% of the average compensation, as defined; otherwise, they will receive 75% of the average compensation, as defined.

Commonwealth Legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Bank is required by the same statute to contribute 9.275% of each participant's gross salary.

Defined Contribution Plan — The Legislature enacted Act No. 305 on September 24, 1999, which amended Act No. 447 to establish, among other things, a defined contribution savings plan program (the ―Program") to be administered by the Retirement System. All regular employees hired for the first time on or after January 1, 2000, and former employees who participated in the defined benefit pension plan, received a refund of their contributions, and were rehired on or after January 1, 2000, become members of the Program as a condition to their employment. In addition, employees who at December 31, 1999 were participants of the defined benefit pension plan had the option, up to March 31, 2000, to irrevocably transfer their prior contributions to the defined benefit pension plan plus interest thereon to the Program.

Act No. 305 requires employees to contribute 8.275% of their monthly gross salary to the Program. Employees may elect to increase their contribution up to 10% of their monthly gross salary. Employee contributions are credited to individual accounts established under the Program. Participants have three options to invest their contributions to the Program. Investment income is credited to the participant's account semiannually.

The Bank is required by Act No. 305 to contribute 9.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan.

Upon retirement, the balance in each participant's account will be used to purchase an annuity contract, which will provide for a monthly benefit during the participant's life and 50% of such benefit to the participant's spouse in case of the participant's death. Participants with a balance of $10,000 or less at retirement will receive a lump-sum payment. In case of death, the balance in each participant's account will be paid in a lump sum to the participant's beneficiaries. Participants have the option of receiving a lump sum or purchasing an annuity contract in case of permanent disability.

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2010 amounted to approximately $859,000 and $846,000 respectively. The Bank's contributions during the years ended June 30, 2010, 2009, and 2008 amounted to approximately $1,910,000, $1,946,000, and $1,982,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2010, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments — The Bank leases office and storage space from the governmental and private sectors. Principally, office space is leased under a short-term operating lease agreement that renews automatically every year, if it is not canceled by any of the parties before the beginning of each year. The storage space agreement expires in 2011. In addition, during fiscal year 2010, the Bank entered into a lease agreement with the Puerto Rico Industrial Development Company (PRIDCO) for office space in PRIDCO's New York Office. This agreement expires in 2022.

The Housing Finance Authority entered into a 30 year lease agreement with the Puerto Rico Department of Housing (PRDH) to rent office space expiring in 2037. During the term of the lease, the Housing Finance Authority will pay an annual rent of $1.5 million. The agreed upon rent includes parking spaces, maintenance and security services in common areas. PRDH will be responsible for the payment of utilities in exchange for an additional payment of $350,000 payable in a lump sum on or before August 31st of each year.

Rent charged to operations in fiscal year 2010 amounted to approximately $2.9 million. At June 30, 2010, the minimum annual future rentals under noncancelable leases are approximately as follows:

Year Ending June 30,	Amount
2011	$ 2,440,000
2012	2,016,000
2013	2,020,000
2014	2,020,000
2015	2,020,000
Thereafter	41,850,000
Total	$ 52,366,000

Cooperative Development Investment Fund — On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the Bank up to $25 million to be matched by cooperative entities. As of June 30, 2010, the Bank has contributed $16.2 million to the Cooperative Development Investment Fund, $624,000 of which were contributed during the year ended June 30, 2010.

Other Risks Related to Mortgage Loans Servicing and Insurance Activities — Certain loan portfolios of the Housing Finance Authority are administered by private servicers who are required to maintain an error and omissions insurance policy. The Housing Finance Authority has a program to manage the risk of loss on its mortgage loan lending and insurance activities.

Loan Guarantees — The Development Fund has entered into an agreement (the ―Agreement") with Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (the ―Program"). Under the Agreement, the Development Fund would assign $10 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. On August 28, 2008, the Development Fund and EDB amended the Agreement to increase from $10 million to $15 million the Development Fund's capital designated for the program. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2010, outstanding guarantees amounted to approximately $8 million, and the allowance for losses on guarantees amounted to approximately $2.5 million.

Custodial Activities of Enterprise Funds — At June 30, 2010, the Housing Finance Authority was custodian of approximately $204,000 in restricted funds of CRUV. As of June 30, 2010, such funds are deposited with the Bank. These funds are not owned by the Housing Finance Authority's enterprise funds and thus are not reflected in the accompanying basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Housing Bank entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Housing Finance Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that become delinquent for 120 days or more. As of June 30, 2010, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately $598,000.

Mortgage Loan Servicing Activities — The Housing Finance Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2010, the principal balance of the mortgage loans serviced for others is approximately as follows:

Popular Mortgage, Inc.	$ 85,000
R-G Mortgage, Inc.	1,496,000
CRUV or its successor without guaranteed mortgage loan payments	44,000
Total	$ 1,625,000

Litigation — The Bank and certain if its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the Bank or its component units.

18. NO-COMMITMENT DEBT AND PROGRAMS SPONSORED BY THE HOUSING FINANCE AUTHORITY

The Public Finance Corporation has issued approximately $5.9 billion of Commonwealth appropriation bonds (the ―Bonds") maturing at various dates through 2032. The proceeds of the Bonds, except for approximately $1.7 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth, and certain of its instrumentalities and public corporations (the ―Promissory Notes"). The $1.7 billion referred to above were used to refund a portion of certain bonds issued by the Public Finance Corporation (also no-commitment debt) between fiscal years 1995 and 2005. The outstanding balance of the Bonds at June 30, 2010 amounted to approximately $1.6 billion.

The Bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investment earnings thereon, will be payable solely from a pledge and assignment of amounts due under the Promissory Notes. Principal and interest on the Promissory Notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature of the Commonwealth. These acts provide that the Commonwealth shall honor the payment of principal and interest on the Promissory Notes, and that the Director of the OMB shall include in the budget of the Commonwealth submitted to the Legislature the amounts necessary to pay the principal and interest on the Notes. The underlying Promissory Notes represent debt of the issuing instrumentalities (all part of the Commonwealth or its component units), and, for purposes of the Public Finance Corporation, the Bonds are considered no-commitment debt. Neither the Bonds nor the Notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

Certain bonds of the Housing Finance Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2010, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	$ 6,321,592
Restricted liabilities (no-commitment debt)	5,288,433
Restricted fund balance	$ 1,033,159
Excess of fund expenses over revenues	$ 175,429

In December 2003, the Housing Finance Authority issued $663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $360 million at June 30, 2010.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company (the ―LLC”) and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $356,270,000 at June 30, 2010. The $100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the LLC using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal, of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by the Bank. These bonds are considered no-commitment debt and, accordingly, are excluded, along with the related assets held in trust, from the Housing Finance Authority’s financial statements.

In addition, the Housing Finance Authority, as a public agency is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under HUD Programs. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $124,560,000 for the year ended June 30, 2010. This amount includes $4,679,791 of administrative fees for services performed as contract administrator, which are reimbursed by HUD.

In addition, on February 17, 2009, the ARRA was signed into law in the United States of America. The purpose of ARRA is to jumpstart the nation’s ailing economy, with the primary focus on creating and saving jobs in the near term and investing in infrastructure that will provide long-term economic benefits. The Authority expended $86.6 million of ARRA program funds of which $21.9 are due from the federal government at June 30, 2010. These funds represent project costs incurred as of June 30, 2010.

On February 23, 2009, the Housing Finance Authority entered into an agreement with the Department of Housing of the Commonwealth whereby a limited liability company was incorporated by the name of Puerto Rico Community Development Fund, LLC (―PRCDF”). PRCDF is a community development entity (―CDE”). A CDE is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has a primary mission of serving, or providing investment capital for, low-income communities or low-income persons; (b) maintains accountability to residents of low-income communities through their representation on any governing board of the entity or any advisory board to the entity; and (c) has been certified as a CDE by the CDFI Fund of the U.S. Department of Treasury. On March 2, 2009, in order to carry out its mission, PRCDF requested New Markets Tax Credits (―NMTC”). The NMTC Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities. PRCDF is pending to receive the NMTC allocation.

19. CONTRIBUTION FROM PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY

On January 14, 2009, the legislature of the Commonwealth enacted Act No. 3 to, among other; authorize the Puerto Rico Infrastructure Financing Authority, an affiliate of the Bank, to sell securities deposited at a corpus account, the proceeds of which would be used, among other, to make a contribution to the Bank. Approximately $1.1 million were contributed by the Puerto Rico Infrastructure Financing Authority to the Bank during fiscal year 2010.

20. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

For a significant portion of the Bank's financial instruments (principally loans and deposits) fair values are not readily available since there are no available trading markets. Accordingly, fair values can only be derived or estimated using valuation techniques, such as present-valuing estimated future cash flows using discount rates, which reflect the risk involved, and other related factors. Minor changes in assumptions or estimation methodologies may have a material effect on the results derived therefrom.

The fair values reflected below are indicative of the interest rate environment as of June 30, 2010, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

The difference between the carrying value and the estimated fair value may not be realized, since, in many of the cases, the Bank intends to hold the financial instruments until maturity, or because the financial instruments are restricted. Comparability of fair values among financial institutions is not likely, due to the wide range of permitted valuation techniques and numerous estimates that must be made in the absence of secondary market prices.

The following methods and assumptions were used by the Bank in estimating fair values of the financial instruments for which it is practicable to estimate such values:

- Short-term financial instruments, such as cash and due from banks, federal funds sold, deposits placed with banks, certificates of deposit, repurchase agreements, and accrued interest receivable and payable have been valued at the carrying amounts reflected in the statement of net assets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

- Financial instruments that are primarily traded in secondary markets, such as most investments, were valued using either quoted market prices or quotations received from independent brokers/dealers or pricing service organizations.

- Financial instruments that are not generally traded, such as long-term deposits placed with banks, investment contracts, certificates of deposit, repurchase agreements, certificates of indebtedness, and bonds and notes issued with fixed interest rates, were fair valued using the present values of estimated future cash flows at the appropriate discount rates. Bonds and other borrowings issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance. The fair value of liabilities with no defined maturities, such as demand deposits, was reported as the amounts payable upon demand.

- Loans to the public sector were valued according to the type of contractual interest rate. Loans to the public sector with interest rates floating within certain ranges were fair valued at their outstanding principal balance. Loans to the public sector with fixed interest rates were fair valued assuming that such loans were packaged and sold in the secondary market. The discount rates utilized were based on the rating of the Commonwealth and the market where the instruments would be sold. For delinquent public sector loans, the fair value was assumed to be equal to the carrying value, as historically the Bank has collected such amounts.

- Loans, participation agreement payable, and commitments to extend credit, financial guarantees and standby letters of credit to the private sector are mostly industrial development, tourism development, and low-cost housing development projects. For these types of loans and commitments, there is no secondary market, and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value of these financial instruments, as such information may not be estimated with reasonable precision.

- Disclosure of the fair value of commitments to extend credit, standby letters of credit, and financial guarantees relating to instrumentalities of the Commonwealth is omitted, as these arrangements are with component units of the Commonwealth.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at June 30, 2010 (in millions):

	Reported Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 15	$ 15
Federal funds sold	331	331
Deposits placed with banks	45	45
Due from Commonwealth of Puerto Rico	5	5
Due from federal government	24	24
Investments and investment contracts	6,219	6,318
Loans receivable to public sector	6,436	6,655
Accrued interest receivable and other receivables	178	178
Financial liabilities:		
Demand deposits	3,254	3,254
Certificates of deposit	2,895	2,939
Certificates of indebtedness	12	12
Securities sold under agreements to repurchase	1,059	1,044
Accounts payable and accrued liabilities	120	120
Accrued interest payable	29	29
Bonds, notes and participation agreement payable	4,111	4,305

21. INTERFUND BALANCES AND TRANSFERS

The following table is a summary of the interfund balances as of June 30, 2010 between governmental funds and enterprise funds:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Enterprise fund:		
Other nonmajor funds (New Secure Housing Program)	GDB Operating Fund	Demand deposits and accrued interest	$ 288,159
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	290,764
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Investment agreements and accrued interest	579,960
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Demand deposits and accrued interest	1,572,340
Other nonmajor funds (AHMSP-Stage 7)	GDB Operating Fund	Demand deposits and and accrued interest	216,314
Other nonmajor funds (AHMSP-Stage 8)	GDB Operating Fund	Investment agreements and accrued interest	14,588,727
ARRA Funds	GDB Operating Fund	Demand deposits and accrued interest	189
Closing Costs Assistance Program	GDB Operating Fund	Demand deposits and accrued interest	3,023,500
Closing Costs Assistance Program	GDB Operating Fund	Certificates of deposit and accrued interest	2,000,334
Subtotal and balance carried forward			22,560,287

(Continued)

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 22,560,287
Governmental fund: Other nonmajor funds (New Secure Housing Program)	Enterprise fund: Housing Finance Authority	Reimbursement of expenditures	19,944
Subtotal			19,944
Total			22,580,231
Enterprise fund: GDB Operating Fund	Governmental fund: Other nonmajor funds (New Secure Housing Program)	Loans payable and accrued interest	(47,518,660)
GDB Operating Fund	Other nonmajor funds (AHMSP-Stage 7)	Loan payable and accrued interest	(39,295,920)
GDB Operating Fund	Other nonmajor funds (AHMSP-Stage 10)	Loans payable and accrued interest	(13,920,776)
Housing Finance Authority	Other nonmajor funds (AHMSP-Stage 7)	Reimbursement of expenditures	(817,842)
Housing Finance Authority	Other nonmajor funds (New Secure Housing Program)	Reimbursement of expenditures	(54,117)
Housing Finance Authority	HUD Programs	Reimbursement of expenditures	(1,235,972)
Housing Finance Authority	Closing Costs Assistance Program	Reimbursement of expenditures	(24,014)
Total			(102,867,301)
Total internal balances — net			$ (80,287,070)

(Continued)

The summary of the interfund balances as of June 30, 2010, between government funds is as follows:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Governmental fund:		
Other nonmajor funds (AHMSP-Stage 7)	Other nonmajor funds (AHMSP-Stage 6)	Advances	$ 71
Total balance among governmental funds eliminated			$ 71
Enterprise funds:	Enterprise funds:		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 23,257,479
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	26,265,505
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	23,776,067
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,054,531
Other nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,378,938
Other nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	28,013
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	501,963,122
Tourism Development Fund	GDB Operating Fund	Certificates of deposit and accrued interest	77,528,006
Housing Finance Authority	GDB Operating Fund	Guaranteed investment contracts and accrued interest	181,801,028
GDB Operating Fund	Housing Finance Authority	Bonds payable	150,829,446
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	366,477,859
GDB Operating Fund	Housing Finance Authority	Loan receivable and accrued interest	3,495,999
Total balance among enterprise funds eliminated			$ 1,358,855,993

(Concluded)

The following table is a summary of interfund transfers for the year ended June 30, 2010:

Transfer Out	Transfer In	Transfer for	Amount
Governmental funds:	Governmental funds:		
Other nonmajor funds (Special Obligation Refunding Bonds)	Other nonmajor funds (AHMSP Act No. 124)	Release of excess funds	$ 31,436,410
Other nonmajor funds (The Key for Your Home)	Other nonmajor funds (AHMSP Act No. 124)	Release of excess funds	1,496,754
Other nonmajor funds (AHMSP-Stage 10)	Other nonmajor funds (AHMSP-Stage 9)	Release of excess funds	340,458
Enterprise Funds:	Governmental Funds:		
Housing Finance Authority	Other nonmajor funds (New Secure Housing Program)	Debt service payments	9,415,827
Housing Finance Authority	Other nonmajor funds (AHMSP Mortgage Backed Certificates)	Subsidy payments	1,706,216
	Other nonmajor funds (AHMSP Stage XI)		
Housing Finance Authority	Closing Costs Assistance Program	Contribution	21,167,689
Housing Finance Authority	Other nonmajor funds (AHMSP-Stage 11)	Contribution	507
Governmental funds:	Enterprise funds:		
Other nonmajor funds (AHMSP Act No. 124)	Housing Finance Authority	Release of excess funds	18,906,791
Other nonmajor funds (The Key for Your Home)	Housing Finance Authority	Release of excess funds	13,385,053
Other nonmajor funds (AHMSP-Stage 9)	Housing Finance Authority	Debt service payments	492,404
Other nonmajor funds (AHMSP-Stage 10)	Housing Finance Authority	Debt service payments	223,593
Other nonmajor funds (AHMSP- Stage 11)	Housing Finance Authority	Debt service payments	4,184,560
Enterprise funds:	Enterprise funds:		
GDB Operating Fund	Other nonmajor funds (JMB Institute)	Contribution	100,000
Capital Fund	Tourism Development Fund	Contribution	72,065,647

22. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit at June 30, 2010: AHMSP Stage 7, AHMSP Stage 10, and New Secure Housing Program for the amount of $19.6 million, $8.5 million and $52.4 million, respectively. The deficit of the AHMSP Stage 7 and AHMSP Stage 10 is due to the amounts borrowed by the Housing Finance Authority from the Bank that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth.

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through November 5, 2010, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2010 financial statements.

GDB Senior Notes 2010 — On July 29, 2010, the Bank issued $1.6 billion of Senior Notes, 2010 Series A and B. The Senior Notes, 2010 Series A consist of term notes with a total principal balance of $1,448,741,000 maturing on various dates from August 1, 2011 to August 1, 2020 and bearing fixed interest rates ranging from 2.00% to 5.50%. The Senior Notes, 2010 Series A are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series A will be payable monthly on the first day of each month, commencing on September 1, 2010. The Bank will use the proceeds for general corporate purposes, including, but not limited to, redeeming other notes issued by the Bank, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt. In particular, the Bank expects to use a portion to the proceeds of the Senior Notes, 2010 Series A to redeem some of the Senior Notes, 2008 Series A and B and Senior Notes, 2009 Series A.

The Senior Notes, 2010 Series B consist of a term note with a principal balance of $151,259,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series B are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on August 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series B will be payable on November 1, 2010 and quarterly thereafter. The Bank will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. The Senior Notes, 2010 Series B were issued as Build America Bonds. Upon compliance with certain requirements of the United States Internal Revenue Code, the Bank will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Senior Notes, 2010 Series B.

On August 24, 2010, the Bank issued approximately $1.2 billion of Senior Notes, 2010 Series C and D. The Senior Notes, 2010 Series C consist of terms notes with a principal balance of $1,086,478,000 maturing on various dates from August 1, 2012 to August 1, 2019 and bearing fixed interest rates ranging from 3.00% to 5.40%. The Senior Notes, 2010 Series C are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest will be payable monthly on the first day of each month, commencing on October 1, 2010. The Bank will use the proceeds for general corporate purposes, including, but not limited to, redeeming other notes issued by the Bank, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and repaying certain outstanding debt.

The Senior Notes, 2010 Series D consist of a term note with a principal balance of $96,411,000 maturing on August 1, 2025 and bearing a fixed interest rate of 5.75%. The Senior Notes, 2010 Series D are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium on September 1, 2011 and on any date thereafter, subject to at least 20 days prior notice. Interest on the Senior Notes, 2010 Series D will be payable on November 1, 2010 and quarterly thereafter. The Bank will use the proceeds for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. The Senior Notes, 2010 Series D were issued as Build America Bonds. Upon compliance with certain requirements of the United States Internal Revenue Code, the Bank will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Senior Notes, 2010 Series D.

Popular, Inc. Note — On July 23, 2010, Popular, Inc. repurchased the floating rate notes it has issued to the Bank, at a price of 109% of the outstanding principal amount plus accrued interest. The total amount received was $110,228,710 including principal of $100 million, premium of $9 million and accrued interest of approximately $1.2 million.

Home Program — Effective July 1, 2010, the Housing Finance Authority was certified by the HUD to administer the HOME Investment Partnerships (HOME) Program. The objectives of the HOME Program include: (1) expanding the supply of decent and affordable housing, particularly housing for low- and very low-income americans; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

* * * * * *

OTHER SUPPLEMENTARY INFORMATION

OTHER NONMAJOR GOVERNMENTAL FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information- Other Nonmajor Governmental Funds
As of June 30, 2010

	New Secure Housing Program	Mortgage-Backed Certificates 2006 Series A	Housing Mortgage Subsidy Program	Affordable Housing Mortgage Subsidy Program-Stage 2	Affordable Housing Mortgage Subsidy Program-Stage 3	Affordable Housing Mortgage Subsidy Program-Stage 6	Affordable Housing Mortgage Subsidy Program-Stage 7	Affordable Housing Mortgage Subsidy Stage 8	Affordable Housing Mortgage Subsidy Stage 9	Affordable Housing Mortgage Subsidy Program-Stage 10	Affordable Housing Mortgage Subsidy Stage 11	Total Other Nonmajor Governmental Funds
ASSETS												
Due from other funds	$ 19,944	$ -	$ -	$ -	$ -	$ -	$ 71	$ -	$ -	$ -	$ -	$ 20,015
Restricted												
Cash and due from banks				417	417	8,284	38,539	60,271			-	107,928
Deposits placed with banks			1,805					-			-	1,805
Investments and investment contracts		3,633,680		8,440,211	5,929,920	11,234,330	21,680,078	1,214,806	11,757,356	5,499,702	24,502,105	93,892,188
Due from other funds	288,159		2,152,299				216,314	14,588,728				17,245,500
Interest and other receivables		1,229	1	9,934	7,540	28,908	85,597	5,893	2,645	588	202	142,537
TOTAL	$ 308,103	$ 3,634,909	$ 2,154,105	$ 8,450,562	$ 5,937,877	$ 11,271,522	$ 22,020,599	$ 15,869,698	$ 11,760,001	$ 5,500,290	$ 24,502,307	$ 111,409,973
LIABILITIES:												
Due to other funds	$ 47,572,776	$ -	$ -	$ -	$ -	$ 71	$ 40,113,762	$ -	$ -	$ 13,920,777	$ -	$ 101,607,386
Restricted-accounts payable and accrued liabilities	5,135,905	2,853,791	32,981	401,704	14,418	366,314	1,469,077	511,937	304,559	70,791	139,885	11,301,362
Total liabilities	52,708,681	2,853,791	32,981	401,704	14,418	366,385	41,582,839	511,937	304,559	13,991,568	139,885	112,908,748
FUND BALANCE (DEFICIT) -												
Unreserved-special revenue funds	(52,400,578)	781,118	2,121,124	8,048,858	5,923,459	10,905,137	(19,562,240)	15,357,761	11,455,442	(8,491,278)	24,362,422	(1,498,775)
Total fund balance (deficit)	(52,400,578)	781,118	2,121,124	8,048,858	5,923,459	10,905,137	(19,562,240)	15,357,761	11,455,442	(8,491,278)	24,362,422	(1,498,775)
TOTAL	$ 308,103	$ 3,634,909	$ 2,154,105	$ 8,450,562	$ 5,937,877	$ 11,271,522	$ 22,020,599	$ 15,869,698	$ 11,760,001	$ 5,500,290	$ 24,502,307	$ 111,409,973

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances Information- Other Nonmajor Governmental Funds
For the Year Ended June 30, 2010

	Special Obligation Refunding Bonds	The Key For Your Home Program	New Secure Housing Program	Mortgage-Backed Certificates 2006 Series A	Housing Mortgage Subsidy Program	Affordable Housing Mortgage Subsidy Program Stage 2	Affordable Housing Mortgage Subsidy Program Stage 3	Affordable Housing Mortgage Subsidy Program Stage 6	Affordable Housing Mortgage Subsidy Program Stage 7	Affordable Housing Mortgage Subsidy Program Stage 8	Affordable Housing Mortgage Subsidy Program Stage 9	Affordable Housing Mortgage Subsidy Program Stage 10	Affordable Housing Mortgage Subsidy Program Stage 11	Total Other Nonmajor Governmental Funds
REVENUES:														
Commonwealth appropriations for repayment of bonds or housing assistance programs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 256,831	$ -	$ -	$ 904,850	$ -	$ 1,161,681
Interest on investments				113,450	34,893	467,199	330,484	578,762	1,463,321	829,897	492,243	223,519	4,024	4,537,792
Interest income on loans and deposits placed with banks	55,011	24,277	121		32,114				6,715					118,238
Net increase in fair value of investments					2,141	386	4,474	16,590		20,002				43,593
Net gain on sale of real estate available for sale	67,600								26,200					93,800
Other	2,635	1,297,822	253,159		33,722									1,587,338
Total revenues	125,246	1,322,099	253,280	113,450	102,870	467,585	334,958	595,352	1,753,067	849,899	492,243	1,128,369	4,024	7,542,442
EXPENDITURES:														
Current:														
General government			7,602		4,000	5,004	5,004	11,000	8,500	8,500			47,000	96,610
Housing assistance programs		1,042,804	6,043,895	1,916,399	23,248	341,336	157,987	463,793	1,785,081	655,683	728,776	612,352	309,987	14,081,341
Debt service—														
Interest			707,914						794,340			904,850		2,407,104
Total expenditures	-	1,042,804	6,759,411	1,916,399	27,248	346,340	162,991	474,793	2,587,921	664,183	728,776	1,517,202	356,987	16,585,055
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	125,246	279,295	(6,506,131)	(1,802,949)	75,622	121,245	171,967	120,559	(834,854)	185,716	(236,533)	(388,833)	(352,963)	(9,042,613)
OTHER FINANCING SOURCES (USES)														
Transfers-in			9,415,827	1,706,217	1,496,754				31,436,410		340,457		507	44,396,172
Transfers-out	(31,436,410)	(14,881,897)			(18,906,791)						(492,405)	(564,051)	(4,184,559)	(70,466,023)
Total other financing sources and (uses)	(31,436,410)	(14,881,897)	9,415,827	1,706,217	(17,410,037)	-	-	-	31,436,410	-	(151,948)	(564,051)	(4,184,052)	(26,069,851)
NET CHANGE IN FUND BALANCES	(31,311,164)	(14,602,512)	2,909,696	(96,732)	(17,334,415)	121,245	171,967	120,559	30,601,556	185,716	(388,481)	(952,884)	(4,537,015)	(35,112,464)
FUND BALANCES (DEFICIT) -BEGINNING OF YEAR	31,311,164	14,602,512	(55,310,274)	877,850	19,455,539	7,927,613	5,751,492	10,784,578	(50,163,796)	15,172,045	11,843,923	(7,538,394)	28,899,437	33,613,689
FUND BALANCE (DEFICIT) -END OF YEAR	$ -	$ -	$ (52,400,578)	$ 781,118	$ 2,121,124	$ 8,048,858	$ 5,923,459	$ 10,905,137	$ (19,562,240)	$ 15,357,761	$ 11,455,442	$ (8,491,278)	$ 24,362,422	$ (1,498,775)

OTHER NONMAJOR ENTERPRISE FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information - Other Nonmajor Enterprise Funds
June 30, 2010

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Assets:			
Current assets:			
Cash and due from banks	$ 2,406,750	$ 28,010	$ 2,378,740
Accrued interest receivable	201	3	198
Total current assets	$ 2,406,951	$ 28,013	$ 2,378,938
Liabilities:			
Current liabilities-Accounts payable and accrued liabilities	$ 54,041	$ 54,041	$ -
Noncurrent liabilities-accrued liabilities	2,378,938		2,378,938
Total liabilities	2,432,979	54,041	2,378,938
Net assets (deficiency):			
Unrestricted	(26,028)	(26,028)	
Total net assets (deficiency)	(26,028)	(26,028)	-
Total liabilities and net assets	$ 2,406,951	$ 28,013	$ 2,378,938

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Combining Statement of Revenues, Expenses, and

Changes in Net Assets Information - Other Nonmajor Enterprise Funds

For the Year Ended June 30, 2010

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Operating revenues:			
Investment income:			
Interest income on deposits placed with banks	$ 2,468	$ 57	$ 2,411
Total operating revenues	2,468	57	2,411
Operating expenses:			
Noninterest expenses:			
Salaries and fringe benefits	63,950	63,950	
Legal and professional fees	64,402	64,402	
Other	12,057	9,646	2,411
Total operating expenses	140,409	137,998	2,411
Operating loss	(137,941)	(137,941)	-
Transfer in	100,000	100,000	
Net assets, beginning of year	11,913	11,913	
Net assets (deficiency), end of year	$ (26,028)	$ (26,028)	$ -

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Combining Statement of Cash Flow Information - Other Nonmajor Enterprise Funds

For the year ended June 30, 2010

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Cash flows from operating activities:			
Net cash payments for other operating non-interest expenses	$ (90,552)	$ (90,552)	$ -
Net cash used in operating activities	(90,552)	(90,552)	-
Cash flows from noncapital financing activities:			
Transfer-in	100,000	100,000	-
Net cash provided by noncapital financing activities	100,000	100,000	-
Cash flows from investing activities:			
Interest received (returned) on investments	2,469	(3,486)	5,955
Net cash provided by investing activities	2,469	(3,486)	5,955
Net change in cash	11,917	5,962	5,955
Cash at beginning of year	2,394,833	22,048	2,372,785
Cash at end of year	$ 2,406,750	$ 28,010	$ 2,378,740
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$ (137,941)	$ (137,941)	$ -
Adjustments to reconcile operating loss to net cash used in operating activities:			
Investment income	(6,012)	(57)	(5,955)
Increase in other liabilities	53,401	47,446	5,955
Net cash used in operating activities	$ (90,552)	$ (90,552)	$ -

Statistical Section

Government Development Bank
for Puerto Rico

(A component unit of the
Commonwealth of Puerto Rico)

2010

STATISTICAL SECTION

This section is intended to complement the information presented in the financial statements, the notes disclosures and the required supplementary information to help readers understand the financial evolution of the Bank. Whenever possible we have provided comparative information for the last nine fiscal years; that is, from fiscal years 2002 to 2010. The selection was based on the fact that in 2002 one of the Bank's component units merged with another governmental entity with governmental activities. Prior to the merger, all of the Bank's component unit's activities were of the business type. Also, it was in 2002 when the Bank implemented GASB Statement No. 34.

The information contains data illustrative of five categories:

- **Financial Trends**: These schedules contain trend information to help the reader understand and assess how the Bank's financial position has changed over time.

- **Revenue Capacity:** These schedules contain information to help the reader understand and assess the factors affecting the Bank's ability to generate its most significant revenue: the interest from investments and financing.

- **Debt Capacity:** These schedules present information to help the reader understand and assess the Bank's current levels of outstanding debt and the Bank's ability to issue additional debt in the future.

- **Demographic and Economic:** These schedules offer demographic and economic indicators to help the reader understand the environment within which the Bank's financial activities take place.

- **Operating:** These schedules contain human resources data to help the reader understand the size of the Bank. This section also provides information on capital assets; however, due to the nature of the Bank's service, capital assets have a secondary importance.

Sources: Unless otherwise specified, the information in these schedules is derived from the comprehensive annual financial report for the relevant year.

FINANCIAL TRENDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Net Assets - Government-Wide

Last Nine Fiscal Years

(Accrual Basis of Accounting)

(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental activities:									
Restricted	$ 52,933	$ 33,614	$ 115,429	$ 104,100	$ 78,036	$ 95,018	$ 134,857	$ 174,745	$ 230,504
Unrestricted	(54,512)	(4,738)	(32,331)	(10,405)	(52,328)	(88,696)	(117,548)	(158,599)	(191,369)
Total governmental activities net assets	(1,579)	28,876	83,098	93,695	25,708	6,322	17,309	16,146	39,135
Business-type activities:									
Invested in capital assets	15,750	17,452	27,397	24,525	27,860	25,277	15,204	14,817	16,625
Restricted	296,977	231,811	229,459	195,826	231,866	271,389	262,778	258,529	185,193
Unrestricted	2,232,813	2,172,543	2,018,770	1,957,194	1,811,003	1,659,175	2,020,846	1,866,287	1,761,235
Total business-type activities net assets	2,545,540	2,421,806	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828	2,139,633	1,963,053
Primary government									
Invested in capital assets	15,750	17,452	27,397	24,525	27,860	25,277	15,204	14,817	16,625
Restricted	349,910	265,425	344,888	299,926	309,902	366,407	397,635	433,274	415,697
Unrestricted	2,178,301	2,167,805	1,986,439	1,946,789	1,758,675	1,570,479	1,903,298	1,707,688	1,569,866
Total primary government net assets	$ 2,543,961	$ 2,450,682	$2,358,724	$ 2,271,240	$ 2,096,437	$ 1,962,163	$2,316,137	$ 2,155,779	$ 2,002,188

Note: During fiscal year 2002, the Puerto Rico Housing Bank and Finance Agency merged with the Housing Finance Authority, a blended component unit of the Bank. Prior to the merger, the Bank had no governmental activities.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
FINANCIAL TRENDS
Changes in Net Assets Government-Wide
Last Nine Fiscal Years
(Accrual Basis of Accounting)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Expenses									
Governmental activities:									
General government	$ 4,777	$ 4,555	$ 5,165	$ 4,514	$ 1,201	$ 1,964	$ 1,511	$ 1,041	$ 1,961
Housing subsidy programs	250,787	177,085	144,438	165,056	192,784	273,687	133,074	80,572	69,418
Total governmental activities expenses	255,564	181,640	149,603	169,570	193,985	275,651	134,585	81,613	71,379
Business-type activities:									
GDB Operating Fund	342,854	318,792	381,694	500,702	361,649	687,780	139,623	181,301	298,733
Housing Finance Authority	96,153	88,024	92,053	85,317	113,138	105,521	219,276	216,270	205,955
Tourism Development Fund	28,410	63,284	16,159	11,955	13,971	16,202	13,374	15,218	9,258
Public Finance Corporation	4,681	3,745	7,165	20,404	56	53	7,779	422	37,332
Capital Fund	68	66	68	73	89	87	121	46	70
Development Fund	3,555	2,929	(5,099)	10,095	39	60	95	41	42
Other nonmajor	140	137	181	168	98	107	101	50	-
Total business-type activities expenses	475,861	476,977	492,221	628,714	489,040	809,810	380,369	413,348	551,390
Total primary government expenses	731,425	658,617	641,824	798,284	683,025	1,085,461	514,954	494,961	622,769
Programs Revenues									
Governmental activities:									
Charges for services-financing and investment	4,743	6,616	10,228	10,829	13,355	15,508	16,791	34,587	23,806
Operating grants and contributions	225,268	127,411	133,012	199,284	187,815	265,171	112,721	31,923	56,909
Capital grants and contributions	-	-	-	-	-	-	21,493	37,027	54,749
Total governmental activities program revenues	230,011	134,027	143,240	210,113	201,170	280,679	151,005	103,537	135,464
Business-type activities:									
Charges for services-fees, commissions, and others	36,605	29,750	50,188	30,674	41,781	44,204	55,143	76,014	37,750
Charges for services-financing and investment	507,978	432,577	576,122	732,301	537,869	406,604	354,395	356,705	471,727
Operating grants and contributions	49,000	-	-	-	-	-	113,743	112,199	194,764
Total business-type activities program revenues	593,583	462,327	626,310	762,975	579,650	450,808	523,281	544,918	704,241
Total primary government programs revenues	823,594	596,354	769,550	973,088	780,820	731,487	674,286	648,455	839,705
Net (Expense) Revenue									
Governmental activities	(25,553)	(47,613)	(6,363)	40,543	7,185	5,028	16,420	21,924	64,085
Business-type activities	117,722	(14,650)	134,089	134,261	90,610	(359,002)	142,912	131,570	152,851
Total primary government net revenue (expense)	92,169	(62,263)	127,726	174,804	97,795	(353,974)	159,332	153,494	216,936
General Revenue and Other Changes in Net Assets									
Governmental activities:									
Unrestricted income	-	-	-	-	-	-	1,026	97	760
Total governmental activities	-	-	-	-	-	-	1,026	97	760
Business-type activities:									
Special item	1,110	154,222	(40,243)	-	36,479	-	-	-	-
Total business-type activities	1,110	154,222	(40,243)	-	36,479	-	-	-	-
Total primary government	1,110	154,222	(40,243)	-	36,479	-	1,026	97	760
Change in net assets									
Governmental activities	(30,455)	(54,222)	(10,598)	40,543	7,185	5,028	17,446	22,021	64,845
Business-type activities	123,734	146,181	98,081	134,261	127,089	(359,002)	142,912	131,570	152,851
Total primary government	$ 93,279	$ 91,959	$ 87,483	$ 174,804	$ 134,274	$ (353,974)	$ 160,358	$ 153,591	$ 217,696

Note: During fiscal year 2002, the Puerto Rico Housing Bank and Finance Agency merged with the Housing Finance Authority, a blended component unit of the Bank. Prior to the merger, the Bank had no governmental activities.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Fund Balances-Governmental Funds

Last Nine Fiscal Years

(Modified Accrual Basis of Accounting)

(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Governmental Funds									
Reserved for:									
Long-term loans receivable and other assets	$ -	$ 2,582	$ 3,146	$ 3,597	$ 5,624	$ 8,855	$ 5,652	$ 7,009	$ 2,261
Debt service	-	29,080	27,727	25,504	55,682	53,373	51,754	50,508	45,868
Unreserved-special revenue funds	3,297	1,952	36,087	56,094	2,972	20,597	77,451	108,845	165,963
Total fund balances governmental funds	$ 3,297	$ 33,614	$ 66,960	$ 85,195	$ 64,278	$ 82,825	$ 134,857	$ 166,362	$ 214,092

Note: During fiscal year 2002, the Puerto Rico Housing Bank and Finance Agency merged with the Housing Finance Authority, a blended component unit of the Bank. Prior to the merger, the Bank had no governmental activities.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
FINANCIAL TRENDS
Changes in Fund Balances - Governmental Funds
Last Nine Fiscal Years
(Modified Accrual Basis of Accounting)
(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
REVENUES									
Commonwealth appropriations for repayment of bonds or for housing assistance programs	$ 11,162	$ 2,253	$ 11,689	$ 65,850	$ 43,818	$ 119,728	$ 114,550	$ 67,416	$ 67,841
Intergovernmental – federal government	211,156	118,532	115,587	124,358	138,272	139,330	21,493	9,563	27,403
Interest on investments and deposits placed with banks	4,538	6,279	9,836	10,517	13,114	14,498	18,803	29,303	22,605
Interest income on loans	162	225	323	420	538	731	926	1,342	2,229
Net increase (decrease) in fair value of investments	43	112	69	(107)	(296)	279	(2,938)	3,942	(1,028)
Net gain on sale of real estate available for sale	94	250	507	-	-	-	-	-	-
Other	1,627	2,525	3,115	3,928	4,160	474	1,026	97	760
Total revenues	228,782	130,176	141,126	204,966	199,606	275,040	153,860	111,663	119,810
EXPENDITURES									
Current:									
General government and other	4,776	4,554	5,165	4,515	1,201	1,964	1,511	1,042	1,960
Housing assistance programs	247,013	148,737	138,591	155,928	179,427	264,838	115,936	67,463	43,922
Provision (credit) for loan losses	-	(87)	(247)	724	1,159	(4,343)	-	(4,925)	-
Debt service:									
Principal	-	151	5,237	41,695	36,516	36,105	34,497	32,770	45,125
Interest	2,407	3,559	6,380	8,631	12,051	12,493	17,138	18,033	25,496
Total expenditures	254,196	156,914	155,126	211,493	230,354	311,057	169,082	114,383	116,503
Excess (deficiency) of revenues over (under) expenditures	(25,414)	(26,738)	(14,000)	(6,527)	(30,748)	(36,017)	(15,222)	(2,720)	3,307
OTHER FINANCING SOURCES (USES):									
Transfers-in	65,564	13,068	77,891	74,975	67,306	86,799	44,871	29,379	8,911
Transfers-out	(70,466)	(19,677)	(82,126)	(47,531)	(55,106)	(102,813)	(61,154)	(74,389)	(5,155)
Proceeds from note payable	-	-	-	-	-	-	-	-	10,029
Total other financing sources (uses)	(4,902)	(6,609)	(4,235)	27,444	12,200	(16,014)	(16,283)	(45,010)	13,785
Net change in fund balance	(30,316)	(33,347)	(18,235)	20,917	(18,548)	(52,031)	(31,505)	(47,730)	17,092
Fund balance - beginning of year	33,613	66,960	85,195	64,278	82,826	134,857	166,362	214,092	197,000
Fund balance - end of year	$ 3,297	$ 33,613	$ 66,960	$ 85,195	$ 64,278	$ 82,826	$ 134,857	$ 166,362	$ 214,092
Debt service as a percentage of noncapital expenditures	1%	2%	7%	24%	21%	16%	31%	44%	61%

Notes:

- During fiscal year 2002, the Puerto Rico Housing Bank and Finance Agency merged with the Housing Finance Authority, a blended component unit of the Bank. Prior to the merger, the Bank had no governmental activities.
- HUD programs were classified as an enterprise fund from 2002 to 2004. However, since its funding comes entirely from federal assistance programs, it was reclassified as a governmental fund in 2005.

REVENUE CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Revenue Bases and Rates - Government-Wide

Last Nine Fiscal Years

(In thousands)

Average Balances	2010	2009	2008	2007	2006	2005	2004	2003	2002
ASSETS:									
Federal funds sold and securities purchased under agreements to resell	$ 847,500	$ 219,291	$ 1,074,850	$ 1,356,192	$ 994,071	$ 693,306	$ 874,159	$ 1,051,839	$ 1,198,783
Deposits placed with banks	578,816	442,726	1,852,131	752,292	198,218	108,297	190,354	169,213	242,683
Investments and investment contracts	5,296,095	4,764,271	2,671,876	2,397,864	2,343,648	2,348,308	3,254,689	3,997,570	2,937,315
Loans receivable, net	6,825,894	6,193,417	4,836,818	6,137,200	6,398,755	5,278,857	3,554,521	2,371,126	3,347,581
Total interest earning assets	13,548,305	11,619,705	10,435,675	10,643,548	9,934,692	8,428,768	7,873,723	7,589,748	7,726,362
LIABILITIES:									
Commercial paper	-	421	241,846	503,401	1,126,304	973,560	828,005	438,292	1,024,376
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	6,852,003	5,991,527	4,715,376	4,783,160	4,481,503	3,523,780	2,819,592	2,874,095	3,142,175
Certificates of indebtedness	11,800	11,800	11,800	26,916	186,886	256,009	247,000	265,907	283,029
Securities sold under agreements to repurchase	958,944	913,030	497,009	462,425	552,864	206,387	172,754	160,519	102,518
Bonds and notes payable	3,586,843	2,698,005	2,942,667	3,083,242	1,864,787	1,559,419	1,705,337	1,639,523	1,325,794
Total interest bearing liabilities	11,409,590	9,614,783	8,408,698	8,859,144	8,212,344	6,519,155	5,772,688	5,378,336	5,877,892
Excess of average interest earning assets over average interest bearing liabilities	$ 2,138,715	$ 2,004,922	$ 2,026,977	$ 1,784,404	$ 1,722,348	$ 1,909,613	$ 2,101,035	$ 2,211,412	$ 1,848,470

Operating revenues	2010	2009	2008	2007	2006	2005	2004	2003	2002
Investment income and interest on loans:									
Enterprise funds:									
Investment income	$ 159,884	$ 179,119	$ 297,193	$ 321,269	$ 203,577	$ 171,062	$ 155,152	$ 258,403	$ 247,497
Interest income on loans	352,837	260,073	289,157	421,861	347,648	251,050	216,034	132,891	245,517
Total investment income and interest income on loans	512,721	439,192	586,350	743,130	551,225	422,112	371,186	391,294	493,014
Interest expense:									
Deposits	110,981	165,774	229,712	302,397	228,596	113,276	60,270	80,774	101,075
Other borrowings	256,114	198,370	208,678	256,974	200,619	144,492	129,795	132,163	154,738
Total interest expense	367,095	364,144	438,390	559,371	429,215	257,768	190,065	212,937	255,813
Net interest income	$ 145,626	$ 75,048	$ 147,960	$ 183,759	$ 122,010	$ 164,344	$ 181,121	$ 178,357	$ 237,201

Yields	2010	2009	2008	2007	2006	2005	2004	2003	2002
ASSETS:	%	%	%	%	%	%	%	%	%
Federal funds sold and securities purchased under agreements to resell	0.20	1.32	4.34	5.38	4.17	2.32	1.28	1.60	2.51
Deposits placed with banks	0.28	2.65	4.61	5.66	5.37	3.28	1.01	2.68	2.37
Investments and investment contracts	1.18	2.52	4.19	4.87	4.81	4.30	3.76	4.03	5.54
Loans receivable, net	4.95	4.02	5.60	6.27	5.22	4.59	4.74	5.24	4.57
Total interest earning assets	3.07	3.30	4.93	5.80	5.02	4.30	3.86	4.04	4.55
LIABILITIES:									
Commercial paper	-	5.23	4.42	4.15	3.56	1.95	1.02	1.27	2.03
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	1.04	2.08	3.93	5.30	4.13	2.16	1.18	2.04	2.65
Certificates of indebtedness	0.23	2.04	4.14	4.75	4.56	4.17	3.95	3.71	3.93
Securities sold under agreements to repurchase	2.61	3.36	4.81	4.89	3.65	1.61	1.67	2.69	4.78
Bonds and notes payable	5.71	6.45	4.93	5.39	5.89	6.03	5.69	6.46	8.44
Total interest bearing liabilities	2.64	3.42	4.35	5.24	4.43	3.12	2.62	3.43	3.94
Net interest yield	0.42	(0.12)	0.58	0.56	0.59	1.19	1.24	0.61	0.61
Net interest margin	1.07	(0.01)	0.79	0.66	0.66	1.25	1.31	0.82	0.81
Return on average assets	0.66	0.75	1.15	1.56	1.29	(4.03)	1.42	1.85	1.55
Change in net assets to average capital	3.74	3.90	5.64	8.00	6.62	(16.55)	5.14	6.87	6.52
Average capital to average assets	17.78	19.17	20.42	19.45	19.56	24.34	27.63	26.92	23.69
90 day Libor									
Ending	0.53	0.60	2.78	5.35	5.00	3.12	1.11	1.28	2.03
Average	0.34	1.96	4.14	5.38	4.29	2.33	1.13	1.57	2.58

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
REVENUE CAPACITY
Principal Revenue Payers - Government-Wide
Last Five Fiscal Years

	2010		2009		2008		2007		2006	
Name/Category	Interest Income on Loans	Percentage of Total Interest Income on Loans %	Interest Income on Loans	Percentage of Total Interest Income on Loans %	Interest Income on Loans	Percentage of Total Interest Income on Loans %	Interest Income on Loans	Percentage of Total Interest Income on Loans %	Interest Income on Loans	Percentage of Total Interest Income on Loans %
Puerto Rico Department of Treasury	$ 58,518,365	16.59	$ 47,834,331	18.39	50,755,535	17.55	$ 136,540,822	32.37	$ 113,848,061	32.75
Puerto Rico Highways and Transportation Authority	34,849,095	9.88	10,998,266	4.23	-	-	-	-	4,511,161	1.30
Puerto Rico Aqueduct and Sewer Authority	26,626,802	7.55	13,421,273	5.16	-	-	83,695,289	19.84	25,563,474	7.35
Special Communities Irrevocable Trust	25,057,343	7.10	21,374,743	8.22	21,795,647	7.54	22,613,374	5.36	14,758,666	4.25
Municipal Revenue Collection Center	10,161,661	2.88	-	-	5,997,494	2.07	12,204,956	2.89	16,710,909	4.81
Puerto Rico Tourism Development Fund	9,877,633	2.80	6,925,262	2.66	11,486,285	3.97	-	-	-	-
Puerto Rico Public Building Authority	9,638,402	2.73	4,027,153	1.55	-	-	9,247,954	2.19	-	-
Puerto Rico Convention Center District Authority	9,085,388	2.58	6,232,868	2.40	8,574,739	2.97	8,693,223	2.06	19,125,323	5.50
Office of Management and Budget	7,890,899	2.24								
Puerto Rico Electric Power Authority	7,770,638	2.20	5,300,910	2.04	-	-	-	-	11,430,890	3.29
Puerto Rico Health Department	-	-	9,458,207	3.64	15,147,862	5.24	-	-	-	-
Department of Transportation and Public Works	-	-	4,496,473	1.73	-	-	-	-	-	-
Agricultural Services Administration	-	-	-	-	6,617,194	2.29	-	-	-	-
Puerto Rico Department of Education	-	-	-	-	5,690,777	1.97	7,249,586	1.72	5,631,643	1.62
Public Housing Administration	-	-	-	-	3,651,488	1.26	-	-	-	-
Puerto Rico Land Authority	-	-	-	-	1,338,793	0.46	-	-	-	-
Dedicated Sales Tax Fund	-	-	-	-	-	-	19,553,844	4.64	-	-
Puerto Rico Ports Authority	-	-	-	-	-	-	12,142,050	2.88	16,730,269	4.81
	199,477,224	56.54	130,069,486	50.01	131,055,814	45.32	311,941,108	73.94	228,310,396	65.67
Other public entities	98,490,374	27.91	59,359,750	22.83	93,008,467	32.17	47,090,876	11.16	61,145,088	17.59
Municipalities	33,148,400	9.39	49,782,080	19.14	37,323,464	12.91	32,126,507	7.62	33,706,290	9.70
Private sector	21,720,520	6.16	20,862,069	8.02	27,769,170	9.60	30,703,219	7.28	24,485,598	7.04
Total interest income on loans	$ 352,836,518	100.00	$ 260,073,385	100.00	289,156,915	100.00	$ 421,861,710	100.00	$ 347,647,372	100.00
Total number of borrowers	5,568		3,854		3,381		3,287		3,791	

Accounting Department (Loans subledger)

DEBT CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY INFORMATION

Interest Earning Assets and Interest Bearing Liabilities - Government-Wide

Last Nine Fiscal Years

(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Interest earning assets									
Governmental activities:									
Deposits placed with banks	$ 6,049	$ 26,362	$ 49,876	$ 42,268	$ 10,756	$ 4,200	$ 5,049	$ 5,054	$ 11,514
Investments and investment contracts	93,892	99,258	118,011	86,787	173,216	200,296	235,730	326,986	319,135
Loans receivable-net	-	2,063	2,520	2,899	3,749	6,577	4,860	7,331	4,990
Total governmental activities	99,941	127,683	170,407	131,954	187,721	211,073	245,639	339,371	335,639
Business-type activities:									
Federal funds sold	$ 331,000	$ 1,364,000	$ 316,620	$ 945,500	$ 1,935,000	$ 1,411,000	$ 757,458	$ 1,083,400	$ 1,376,500
Securities purchased under agreements to resell	-	-	-	-	-	240,000	246,469	150,000	170,000
Deposits placed with banks	38,854	1,086,366	1,566,118	1,881,810	552,266	350,503	308,703	407,975	568,089
Investments and investment contracts	6,124,707	4,274,332	4,287,850	2,048,405	2,269,504	2,115,873	3,040,625	3,903,265	3,744,119
Loans receivable-net	6,966,384	6,683,341	5,460,899	6,238,862	7,276,712	5,659,239	4,199,022	2,628,933	2,259,263
Total business-type activities	13,460,945	13,408,039	11,631,487	11,114,577	12,033,482	9,776,615	8,552,277	8,173,573	8,117,971
Total primary government	$ 13,560,886	$ 13,535,722	$ 11,801,894	$ 11,246,531	$ 12,221,203	$ 9,987,688	$ 8,797,916	$ 8,512,944	$ 8,453,610
Interest bearing liabilities									
Governmental activities:									
Notes payable	$ 4,811	$ 4,811	$ 4,962	$ 10,199	$ 10,244	$ 10,339	$ 10,339	$ 9,927	$ 10,029
Bonds payable	-	-	-	-	41,650	78,070	114,175	148,570	181,340
Total governmental activities	4,811	4,811	4,962	10,199	51,894	88,409	124,514	158,497	191,369
Business-type activities:									
Deposits	6,149,198	7,554,808	7,003,534	5,457,994	5,783,278	4,872,660	3,812,894	3,536,558	3,868,109
Certificates of indebtedness	11,800	11,800	11,800	11,800	54,884	261,056	251,799	242,984	294,591
Securities sold under agreements to repurchase	1,058,835	859,053	687,200	455,000	515,000	439,034	160,000	190,017	170,000
Commercial paper	-	-	500	575,861	985,131	1,191,202	918,410	761,167	398,746
Bonds, notes and participation agreement payable	3,383,756	2,098,726	714,829	1,704,048	1,745,058	17,540	-	-	-
Bonds, notes and mortgage-backed certificates payable	722,449	959,133	1,417,257	1,283,260	1,343,215	1,383,913	1,504,461	1,623,100	1,305,978
Total business-type activities	11,326,038	11,483,520	9,835,120	9,487,963	10,426,566	8,165,405	6,647,564	6,353,826	6,037,424
Total primary government	$ 11,330,849	$ 11,488,331	$ 9,840,082	$ 9,498,162	$ 10,478,460	$ 8,253,814	$ 6,772,078	$ 6,512,323	$ 6,228,793
Net assets									
Governmental activities	$ (1,579)	$ 28,875	$ 83,098	$ 93,695	$ 25,708	$ 6,322	$ 17,309	$ 16,146	$ 39,135
Business-type activities	2,545,540	2,421,807	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828	2,139,633	1,963,053
Total primary government	$ 2,543,961	$ 2,450,682	$ 2,358,724	$ 2,271,240	$ 2,096,437	$ 1,962,163	$ 2,316,137	$ 2,155,779	$ 2,002,188
Interest bearing liabilities to interest earning assets	%	%	%	%	%	%	%	%	%
Governmental activities	4.81	3.77	2.91	7.73	27.64	41.89	50.69	46.70	57.02
Business-type activities	84.14	85.65	84.56	85.37	86.65	83.52	77.73	77.74	74.37
Total primary government	83.56	84.87	83.38	84.45	85.74	82.64	76.97	76.50	73.68
Interest bearing liabilities to net assets									
Governmental activities	(304.69)	16.66	5.97	10.89	201.86	1,398.43	719.36	981.65	489.00
Business-type activities	444.94	474.17	432.19	435.72	503.52	417.49	289.17	296.96	307.55
Total primary government	445.40	468.78	417.18	418.19	499.82	420.65	292.39	302.09	311.10
Depositors	352	410	419	357	472				

Notes:

The Bank has no legal restriction in the amount of debt that it may issue. The control resides on its Assets/Liability Committee (ALCO), which manages the relationship between interest earning assets and interest bearing liabilities.

The data for depositors is not available for the periods prior to fiscal year 2006 due to system difficulties.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY

Interest Income Pledged to Pay Debt Service

Last Nine Fiscal Years

(In thousands)

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Business-type activities									
Investment income	$ 87,970	$ 83,309	$ 78,721	$ 84,056	$ 78,103	$ 77,245	$ 86,902	$ 84,838	$ 85,404
Debt Service:									
Principal	$ 223,623	$ 171,817	$ 91,611	$ 236,021	$ 315,020	$ 134,037	$ 156,210	$ 175,960	$ 78,196
Interest expense	62,176	71,129	71,027	74,082	78,077	83,715	88,357	85,517	73,758
Total debt service	$ 285,799	$ 242,946	$ 162,638	$ 310,103	$ 393,097	$ 217,752	$ 244,567	$ 261,477	$ 151,954
Coverage	30.78%	34.29%	48.40%	27.11%	19.87%	35.47%	35.53%	32.45%	56.20%

Note: During fiscal year 2002, the Puerto Rico Housing Bank and Finance Agency merged with the Housing Finance Authority, a blended component unit of the Bank. Prior to the merger, the Bank had no governmental activities.

DEMOGRAPHIC AND ECONOMIC

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEMOGRAPHIC AND ECONOMIC INFORMATION OF PUERTO RICO

For the Last Eight Fiscal Years Available

	FISCAL YEARS							
	2009	**2008**	**2007**	**2006**	**2005**	**2004**	**2003**	**2002**
Population (thousands of habitants)	3,967	3,954	3,935	3,928	3,912	3,895	3,879	3,859
Total Personal Income (million of $)	59,035	56,201	53,084	50,949	48,268	45,566	44,216	42,039
Per Capita Personal Income ($/habitant)	14,905	14,214	13,491	12,971	12,338	11,699	11,399	10,894
Unemployment Rate (%)	13.4%	11.0%	10.4%	11.7%	10.6%	11.4%	12.1%	12.1%

Source:

Department of Labor and Human Resources, Bureau of Labor Statistics, Household Survey and Puerto Rico Planning Board.

Comments:

Figures for fiscal year 2010 are not yet available and for 2009 are preliminary. The trend in all four criteria is relatively stable. While population growth rate is less than one percent, total personal income grew at an average rate of 5.0%. The unemployment rate that had been declining during the 2002-2005 period, has been fluctuating during the last four years exhibiting the effect of the economic turnmoil in the job market.

All figures from fiscal years 2002 to 2008 were revised by the Board of Planning and Statistics of Puerto Rico.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEMOGRAPHIC AND ECONOMIC INFORMATION OF PUERTO RICO

For the Last Eight Fiscal Years Available

EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR

(In thousands of persons 16 years and over)

FOR FISCAL YEARS ENDED ON JUNE 30,	2009	2008	2007	2006	2005	2004	2003	2002
TOTAL	**1,167**	**1,218**	**1,263**	**1,253**	**1,238**	**1,206**	**1,188**	**1,152**
Growth Rate	-4.1%	-3.6%	0.8%	1.3%	2.6%	1.5%	3.1%	0.7%
Services	353	359	364	354	349	340	328	311
Industry / Total	30.2%	29.5%	28.8%	28.2%	28.2%	28.2%	27.6%	27.0%
Growth Rate	-1.7%	-1.4%	2.8%	1.4%	2.6%	3.7%	5.5%	4.4%
Domestic service	7	7	8	7	11	12	11	11
Others	346	352	356	347	338	328	318	300
Government	271	279	296	278	274	268	269	257
Industry / Total	23.2%	22.9%	23.4%	22.2%	22.1%	22.2%	22.6%	22.3%
Growth Rate	-2.9%	-5.7%	6.5%	1.5%	2.2%	-0.4%	4.7%	3.6%
Trade	244	257	260	271	261	253	252	236
Industry / Total	20.9%	21.1%	20.6%	21.6%	21.1%	21%	21.2%	20.5%
Growth Rate	-5.1%	-1.2%	-4.1%	3.8%	3.2%	0.4%	6.8%	1.3%
Wholesale	27	31	28	24	25	24	25	25
Retail	217	226	232	248	236	228	228	212
Manufacturing	112	129	135	136	138	136	134	137
Industry / Total	9.6%	10.6%	10.7%	10.9%	11.2%	11.3%	11.3%	11.9%
Growth Rate	-13.2%	-4.4%	-0.7%	-1.4%	1.5%	1.5%	-2.2%	-12.7%
Sugar	a/	a/	a/	a/	a/	a/	a/	a/
Tobacco products	a/	a/	a/	2	a/	a/	a/	a/
Factory needlework	9	9	8	9	9	10	12	14
Alcoholic beverages and beer	a/	a/	a/	a/	a/	a/	a/	a/
Home needlework	a/	a/	a/	a/	a/	a/	a/	a/
Others	103	120	127	125	126	125	122	123
Construction	68	82	94	87	87	88	82	84
Industry / Total	5.8%	6.7%	7.4%	6.9%	7.0%	7.3%	6.9%	7.3%
Growth Rate	-17.1%	-12.8%	8.0%	0.0%	-1.1%	7.3%	-2.4%	0.0%
Finance, insurance, and real estate	43	43	45	47	43	41	42	42
Industry / Total	3.7%	3.5%	3.6%	3.7%	3.5%	3.4%	3.5%	3.6%
Growth Rate	0.0%	-4.4%	-4.3%	9.3%	4.9%	-2.4%	0.0%	7.7%
Transportation	24	23	23	27	27	27	28	30
Industry / Total	2.1%	1.9%	1.8%	2.2%	2.2%	2.2%	2.4%	2.6%
Growth Rate	4.3%	0.0%	-14.8%	0.0%	0.0%	-3.6%	-6.7%	11.1%
Agriculture, forestry, and fishing	19	15	16	22	26	25	24	23
Industry / Total	1.6%	1.2%	1.3%	1.8%	2.1%	2.1%	2.0%	2.0%
Growth Rate	26.7%	-6.3%	-27.3%	-15.4%	4.0%	4.2%	4.3%	9.5%
Sugar cane	a/	a/	a/	a/	a/	a/	a/	a/
Coffee	6	4	3	8	6	6	8	7
Agriculture, forestry, and fishing (continued)								
Bananas	2	2	3	3	4	4	4	3
Forestry and fishing	a/	a/	a/	a/	a/	a/	a/	a/
Other farms	11	9	10	11	16	16	13	13
Communication	15	16	16	16	17	16	15	18
Industry / Total	1.3%	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%	1.6%
Growth Rate	-6.3%	0.0%	0.0%	-5.9%	6.3%	6.7%	-16.7%	20.0%
Other public utilities	18	15	14	16	15	13	14	14
Industry / Total	1.5%	1.2%	1.1%	1.3%	1.2%	1.1%	1.2%	1.2%
Growth Rate	20.0%	7.1%	-12.5%	6.7%	15.4%	-7.1%	0.0%	0.0%
Mining	a/	a/	a/	a/	a/	a/	a/	2

a/ Less than 2,000.

Note: Figures revised in accordance with the Census of Population & Housing of 2000 (Includes self employed.)

Source: Department of Labor and Human Resources, Bureau of Labor Statistics, Household Survey

Comment: Total employment decreased 4.1% from 2008 to 2009. Construction was the most affected industry with a decline of 17.1% basically, as a consequence of the instability in the housing sector. Other industries affected were the manufacturing with a decrease of 13.2%, and communication with 6.3%.

OPERATING

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

Government Employees by Function / Program

Last Nine Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Function / Program									
GDB Operating Fund	284	299	271	342	350	360	352	340	298
Housing Finance Authority	144	165	155	183	186	190	193	169	161
	428	464	426	525	536	550	545	509	459

Notes:

During 2003, GDB restructured several of its departments in order to expand the services provided to its clients.

During 2008, GDB offered an early retirement program to certain employees.

During 2010, GDB implemented a termination plan where 17 career positions were eliminated. In addition, there were a total of 21 employees who voluntarily separated from employment.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

Capital Assets - Government-Wide

Last Nine Fiscal Years

	2010	2009	2008	2007	2006	2005	2004	2003	2002
Capital assets not being depreciated:									
Land	$ 2,845,000	$ 2,845,005	$ 10,970,990	$ 10,970,990	$ 2,845,000	$ 2,845,000	$ 2,955,000	$ 2,955,000	$ 4,220,000
Construction in progress	-	-	-	-	10,701,311	9,753,214	-	-	-
Total capital assets not being depreciated	2,845,000	2,845,005	10,970,990	10,970,990	13,546,311	12,598,214	2,955,000	2,955,000	4,220,000
Capital assets being depreciated:									
Building	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048
Leasehold improvements	4,429,170	4,017,966	3,994,861	2,450,008	2,342,878	459,264	1,283,538	1,239,441	1,239,441
Information systems	3,707,774	3,208,527	3,322,143	3,418,279	4,758,833	4,667,493	3,565,020	5,448,691	5,285,580
Office furniture and equipment	2,687,793	2,722,277	2,851,922	3,042,790	2,872,872	3,058,337	3,381,952	3,812,710	3,254,304
Software	3,522,685	3,473,645	3,798,777	3,773,033	4,673,468	2,276,218	4,921,753	3,737,471	-
Vehicles	217,119	223,125	207,915	257,885	431,087	506,184	439,096	404,332	373,822
Total capital assets being depreciated	23,552,589	22,633,588	23,163,666	21,930,043	24,067,186	19,955,544	22,579,407	23,630,693	19,141,195
Less accumulated depreciation and amortization for:									
Building	(2,134,660)	(1,909,959)	(1,685,258)	(1,460,557)	(1,235,856)	(1,011,155)	(786,454)	(561,753)	(337,052)
Leasehold improvements	(1,746,839)	(1,358,320)	(1,005,286)	(766,095)	(309,645)	(165,109)	(875,623)	(781,537)	(655,195)
Information systems	(2,468,416)	(1,690,944)	(1,562,381)	(2,981,543)	(3,808,911)	(3,472,051)	(2,716,637)	(4,582,605)	(3,635,210)
Office furniture and equipment	(1,949,436)	(1,625,414)	(1,471,793)	(1,919,866)	(1,831,200)	(1,955,530)	(1,590,435)	(2,177,740)	(1,927,368)
Software	(2,163,973)	(1,267,463)	(830,430)	(1,042,847)	(2,298,953)	(367,692)	(4,109,476)	(3,451,295)	-
Vehicles	(184,528)	(174,235)	(182,667)	(204,878)	(269,235)	(305,040)	(252,101)	(214,173)	(181,495)
Total accumulated depreciation and amortization	(10,647,852)	(8,026,335)	(6,737,815)	(8,375,786)	(9,753,800)	(7,276,577)	(10,330,726)	(11,769,103)	(6,736,320)
Total capital assets being depreciated–net	12,904,737	14,607,253	16,425,851	13,554,257	14,313,386	12,678,967	12,248,681	11,861,590	12,404,875
Total capital assets–net	$ 15,749,737	$ 17,452,258	$ 27,396,841	$ 24,525,247	$ 27,859,697	$ 25,277,181	$ 15,203,681	$ 14,816,590	$ 16,624,875

Note:

- In 2005, GDB began construction of its new headquarters. Governmental Finance Center that was going to house the Bank, its component units, affiliates, and other fiscal or financial governmental entities, except for the Housing Finance Authority.
- In 2007, the Bank reassessed its construction project, and was reconsidering the original plan. Also in 2007, the Bank exchanged real estate available for sale for a land lot where the Bank's headquarters were expected to be developed.
- The Housing Finance Authority made some improvements to its offices during 2006.
- Currently the Bank is implementing a new integrated banking system. In 2005, the mainframe system became fully depreciated.
- In 2009, GDB cancelled the construction of its new headquarters and transferred the land to real estate available for sale.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
OPERATING INFORMATION
SERVICE LEVEL -LOANS ORIGINATED
Last Nine Fiscal Years

Function / Program	2010	2009	2008	2007	2006	2005	2004	2003	2002
GDB Operating Fund	172	154	152	119	98	125	59	57	120
Housing Finance Authority	1,503	406	679	519	600				
Tourism Development Fund	2	1	1				4		
Development Fund	1	-	-	-	-	-	-	-	-
	1,678	561	832	638	698	125	63	57	120

Source : Accounting Department from the loans subledger.

Note: The Housing Finance Authority data is not currently available for the periods prior to fiscal year 2006.