NEW ISSUE - BOOK ENTRY ONLY
See "Book-Entry Only System" under *The Notes*

$1,448,741,000
Government Development Bank for Puerto Rico
Senior Notes, 2010 Series A

The Senior Notes, 2010 Series A are being issued by Government Development Bank for Puerto Rico pursuant to the provisions of a trust indenture, dated February 17, 2006, as amended or supplemented, between the Bank and Banco Popular de Puerto Rico, as trustee. The Bank will use the proceeds from the sale of the Notes 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 is planning to use a portion of the proceeds of the Notes to redeem some of the issued and outstanding notes of each of the following series previously issued under the Indenture: (i) 2008 Series A Notes; (ii) 2008 Series B Notes; and (iii) 2009 Series A Notes. See *Use of Proceeds* herein.

Concurrently with the issuance of the Notes, the Bank expects to issue its Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds) (the "Series B Notes"). The Series B Notes will be offered for sale solely in Puerto Rico. The issuance of the Notes is not contingent on the issuance of the Series B Notes.

The Notes have the following characteristics:

- Interest will accrue from their date of issuance and will be payable monthly on the first day of each month, commencing on September 1, 2010.
- Redeemable at the option of the Bank beginning on August 1, 2011 and on any date thereafter, without premium.
- Issued as fully registered notes without coupons in denominations of $5,000 principal amount and integral multiples of $1,000 in excess thereof.

The inside cover page contains information on the maturities, interest rates, and prices or yields of the Notes.

The Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank.

The Notes and the interest thereon are exempt from Puerto Rico and local income taxation. Under the provisions of existing federal statutes and regulations now in force, under certain circumstances, interest on the Notes will be exempt from United States federal income taxation to individuals who are bona fide residents of Puerto Rico and corporations organized under the laws of Puerto Rico. Except as described above and in *Tax Matters* herein, interest on the Notes is included in gross income for United States federal income tax purposes. See *Tax Matters* herein.

The Notes do not constitute an obligation of the Commonwealth of Puerto Rico or any of its political subdivisions or public instrumentalities, other than the Bank, and neither the Commonwealth of Puerto Rico nor any of its political subdivisions or public instrumentalities is liable thereon. Neither the good faith, credit and taxing power of the Commonwealth of Puerto Rico nor that of any of its political subdivisions or instrumentalities, is pledged for the payment of the Notes.

The Notes are offered for delivery when, as and if issued and accepted by the underwriters, subject to the approval of legality by O'Neill & Borges, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the underwriters by Fiddler González & Rodríguez, P.S.C., San Juan, Puerto Rico.

The Notes will be dated their date of delivery and are expected to be available for delivery through the facilities of The Depository Trust Company on or about July 29, 2010.

UBS Financial Services Incorporated of Puerto Rico

Popular Securities | **Santander Securities**

Barclays Capital | **BBVAPR MSD**
BofA Merrill Lynch | **Oriental Financial Services** | **Raymond James**
Samuel A. Ramírez & Co., Inc. | **Wells Fargo Securities, LLC**

July 23, 2010

$1,448,741,000
Government Development Bank for Puerto Rico
Senior Notes, 2010 Series A

Maturity Date August 1,	Amount	Interest Rate	Price	CUSIP
2011	$ 28,316,000	2.00%	100.00%	745177EH4
2012	107,338,000	3.00	100.00	745177EJ0
2014	243,866,000	4.25	100.00	745177EK7
2016	489,926,000	5.00	100.00	745177EL5
2018	145,593,000	5.25	100.00	745177EM3
2020	433,702,000	5.50	100.00	745177EN1

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In connection with this offering, the underwriters may effect transactions which stabilize or maintain the market prices of the Notes and other of the Bank's outstanding notes at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Certain statements contained in this Official Statement reflect not historical facts but forecasts and "forward-looking statements." These statements are based upon a number of assumptions and estimates that are subject to significant uncertainties, many of which are beyond the control of the Bank. In this respect, the words "estimates," "projects," "anticipates," "expects," "intends," "believes" and similar expressions are intended to identify forward-looking statements. All projections, forecasts, assumptions, expressions of opinions, estimates and other forward-looking statements are expressly qualified in their entirety by this cautionary statement: actual results may differ materially from those expressed or implied by forward-looking statements.

The projections set forth in this Official Statement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Bank's and the Commonwealth's management, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of management's knowledge and belief, the expected course of action and the expected future financial performance of the Bank or the Commonwealth. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information. Neither the Bank's or the Commonwealth's independent auditors, nor any other independent auditors, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with, the prospective financial information. Neither the Bank's or the Commonwealth's independent auditors, nor any other independent auditors, have been consulted in connection with the preparation of the prospective financial information set forth in this Official Statement, which is solely the product of the Bank, the Commonwealth and its affiliates and subsidiaries, and the independent auditors assume no responsibility for its content.

No dealer, broker, sales representative or other person has been authorized by the Bank to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Bank. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Bank and other official sources that are believed to be reliable. The information set forth herein regarding the underwriters has been obtained from the underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof. The underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the United States federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters do not guarantee the accuracy or completeness of such information.

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SUMMARY

This summary highlights selected information contained elsewhere in this Official Statement. Because it is a summary, it does not contain all the information that a purchaser should consider before purchasing the Notes. A purchaser should read the entire Official Statement, including the document incorporated herein by reference.

Government Development Bank

Government Development Bank for Puerto Rico (the "Bank") is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth"), created by law in 1948. Its principal functions are to act as fiscal agent and financial advisor to the Commonwealth and its instrumentalities, as well as to promote the economic development of Puerto Rico. The Bank also provides interim and long-term financing to the Commonwealth and its instrumentalities.

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, loans to such entities represent a significant portion of the Bank's assets. For that reason, this Official Statement includes or incorporates by reference operating and financial information about the Commonwealth and its instrumentalities and includes a discussion of recent developments relating to the Commonwealth's and such instrumentalities' current fiscal situation.

As of June 30, 2009, the Bank had consolidated total assets of $14.0 billion, including $6.7 billion of loans receivable, principally from the Commonwealth and its instrumentalities, and consolidated net assets of $2.45 billion. For the year ended June 30, 2009, the Bank's consolidated operating revenues were $596.4 million and the change in net assets was $92.0 million.

As of March 31, 2010, the Bank had consolidated total assets of $13.6 billion and consolidated net assets of $2.5 billion. For the nine months ended March 31, 2010, the Bank's consolidated operating revenues were $525.8 million and the change in net assets was $98.7 million.

As of March 31, 2010, the Bank's Operating Fund had total assets of $12.8 billion and net assets of $1.7 billion. For the nine months ended March 31, 2010, the Bank's Operating Fund revenues were $287.6 million and the change in net assets was $41.3 million.

Since loans to the Commonwealth and its instrumentalities represent a significant portion of the Bank's assets, the Commonwealth's fiscal situation and any downgrade of its credit rating may have an adverse impact on the Bank's financial condition. Any such downgrade could also affect the Bank's liquidity and limit its access to the capital markets and other funding sources. See "General Financial Information – Liquidity and Sources of Funding" under *The Bank.*

Details of the Notes

Offering	Government Development Bank for Puerto Rico Senior Notes, 2010 Series A (the "Notes").
Issuer	Government Development Bank for Puerto Rico.
Aggregate Principal Amount	$1,448,741,000
Interest	Interest on the Notes will be payable monthly on the first day of each month, commencing on September 1, 2010.

Use of Proceeds	The Bank will use the proceeds from the sale of the Notes 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 is planning to use a portion of the proceeds of the Notes to redeem some of the issued and outstanding notes of each of the following series previously issued under the Indenture: (i) 2008 Series A Notes; (ii) 2008 Series B Notes; and (iii) 2009 Series A Notes. See *Use of Proceeds* for a description of the notes to be redeemed by the Bank with the proceeds of the Notes.
Redemption	The Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part (and if in part, in such order of maturity as the Bank shall direct), 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.
Note Program	The Notes are being issued pursuant to the provisions of a trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between the Bank and Banco Popular de Puerto Rico, as trustee, and a resolution adopted by the Executive Committee of the Bank's Board of Directors on July 23, 2010. Under the Indenture, the Bank may issue additional notes on a parity with any notes issued under the Indenture. See INTRODUCTORY STATEMENT herein for additional information on the other series of notes that have been previously issued by the Bank under the Indenture.
Unsecured Notes	The Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Bank guarantees of obligations of others for borrowed money now or hereafter outstanding. Neither the good faith, credit and taxing power of the Commonwealth nor that of any of its political subdivisions or instrumentalities is pledged for the payment of the Notes.
Additional Debt Securities	Under the Indenture, the Bank may issue additional debt securities and may otherwise incur additional indebtedness without restriction.
Availability of Assets of the Bank's Subsidiaries for Payment of the Notes	Because the Notes are issued by the Bank and are not guaranteed by the Bank's subsidiaries, holders of the Notes will not have recourse against the Bank's subsidiaries. As of June 30, 2009, approximately $1.6 billion out of the Bank's consolidated total assets of $14.0 billion were held by the Bank's subsidiaries and are, therefore, unavailable for payment of debt service on the Notes. As of March 31, 2010, total assets held by the Bank's subsidiaries were $1.5 billion out of a total of $13.6 billion.

Absence of Public Market	The Notes are a new issue of securities. There is no assurance that a secondary market for the Notes will develop, or if it does develop, that it will provide the holders of the Notes with liquidity for their investment or that it will continue for the life of the Notes.
Governing Law	All rights and obligations under the Notes will be governed by and construed in accordance with the laws of Puerto Rico.
Rating	The Notes have received a rating of "BBB" by Standard & Poor's Ratings Services ("S&P"). For a description of the rating on the Notes, see *Rating*.
Book-Entry Form	The Notes will be issued in book-entry form through the book-entry only system of The Depository Trust Company. Purchasers of the Notes will not receive definitive Notes.
Tax Matters	The Notes and the interest thereon are exempt from Puerto Rico and local income taxation. Under the provisions of existing federal statutes and regulations now in force, under certain circumstances, interest on the Notes will be exempt from United States federal income taxation to individuals who are bona fide residents of Puerto Rico and corporations organized under the laws of Puerto Rico. Except as described above and in *Tax Matters* herein, interest on the Notes is included in gross income for United States federal income tax purposes. See *Tax Matters* herein.

FINANCIAL HIGHLIGHTS OF
GOVERNMENT DEVELOPMENT BANK AND ITS SUBSIDIARIES

	As of and for the nine months ended March 31,		As of and for the year ended June 30,		
	2010	2009	2009	2008	2007
	(in thousands)				
Financial Condition Trends Government Wide*					
Assets					
Total invested assets	$ 6,064,585	$ 4,828,915	$ 6,850,319	$ 6,338,475	$ 5,004,770
Loans receivable, net	7,112,966	6,765,918	6,685,404	5,463,419	6,241,761
Total assets	13,615,109	12,229,169	14,039,155	12,315,995	11,927,084
Liabilities					
Deposits and commercial paper	5,655,466	5,790,943	7,554,807	7,004,034	6,033,855
Other borrowed funds	5,276,287	3,866,038	3,933,523	2,836,049	3,464,306
Total liabilities	11,065,677	9,807,841	11,588,473	9,957,272	9,655,844
Net assets	2,549,432	2,421,328	2,450,682	2,358,723	2,271,240
Income and Expense Trends Government Wide*					
Total investment income and interest income on loans	379,254	336,586	439,193	586,350	743,130
Total interest expense	273,487	265,943	364,145	438,390	559,371
Net investment income and interest income on loans	105,767	70,643	75,048	147,960	183,759
Provision (credit) for loan losses	1,165	45,092	46,374	1,847	(4,640)
Non-interest income and other items	146,572	109,561	157,161	183,200	229,958
Non-interest expense and other items	188,183	156,006	244,640	237,446	239,347
Contribution from other	38,261	84,722	154,222	-	-
Contributions to others	2,503	1,223	3,458	4,384	4,207
Change in net assets	98,749	62,605	91,959	87,483	174,803
Profitability and Capitalization Ratios Enterprise Funds†					
Return on total average assets	1.34%	0.97%	1.11%	0.81%	0.87%
Change in net assets to average net assets	7.44	5.12	6.22	4.40	5.03
Average net assets to average total assets	18.02	19.00	17.89	18.47	17.28
Net assets to total assets	18.79	19.39	17.26	18.60	18.33
Interest rate spread	0.28	0.45	0.19	0.69	0.60
Net interest margin	0.78	1.01	0.69	1.36	1.38

* Government-wide total amounts combine the results of the Bank's governmental activities and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and other government appropriations. Business-type activities are financed in whole or in part by fees charged to third parties for goods or services. Puerto Rico Housing Finance Authority, a subsidiary of the Bank, accounts for all of the Bank's governmental activities.

† The financial statements for the enterprise funds provide additional detail about the same type of information as the business-type activities in the government wide financial statements.

$1,448,741,000
Government Development Bank for Puerto Rico
Senior Notes, 2010 Series A

INTRODUCTORY STATEMENT

This Official Statement of Government Development Bank for Puerto Rico (the "Bank"), which includes the cover page, the inside cover page, the Table of Contents, the Summary, the Financial Highlights of Government Development Bank and its Subsidiaries and the Appendices, and the information incorporated by reference as set forth below, is provided to furnish information with respect to its Senior Notes, 2010 Series A (the "Notes"). The Bank is a public corporation and an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth").

The Notes are being issued pursuant to the provisions of a trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between the Bank and Banco Popular de Puerto Rico, as trustee (the "Trustee"), and a resolution adopted by the Executive Committee of the Board of Directors of the Bank on July 23, 2010. Under the provisions of the Indenture, the Bank may issue additional notes on a parity with any notes issued under the Indenture, including the Notes.

Concurrently with the issuance of the Notes, the Bank expects to issue its Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds) (the "Series B Notes"). The Series B Notes will be offered for sale solely in Puerto Rico. The issuance of the Notes is not contingent on the issuance of the Series B Notes.

The table below shows information on the other series of notes that have been previously issued by the Bank under the Indenture and that are currently outstanding, including the original principal amount of notes issued and the outstanding principal amount of notes outstanding as of March 31, 2010:

Series	Initial Principal Amount	Outstanding Principal Amount As of March 31, 2010
2006 Series B	$ 740,000,000	$ 428,655,000
2006 Series C (AMT)	81,960,000	81,960,000
2008 Series A	944,533,000	571,533,000
2008 Series B	285,467,000	195,467,000
2009 Series A	250,000,000	250,000,000
2009 Series B	200,000,000	200,000,000
2009 Series C	1,013,200,000	1,013,200,000
2009 Series D	342,876,000	342,876,000
Total		$3,083,691,000

The Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated guarantees of obligations of others for borrowed money now or hereafter outstanding.

The Notes are not an obligation of the Commonwealth or any of its political subdivisions or instrumentalities, other than the Bank, and neither the Commonwealth nor any of its political subdivisions or instrumentalities, other than the Bank, is required to pay the Notes.

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, loans to the Commonwealth and its instrumentalities represent a significant portion of the Bank's assets. Many of these loans are payable from legislative appropriations from the Commonwealth's General Fund. Accordingly, the payment of these loans may be affected by budgetary constraints of the Commonwealth. The Bank may also be called upon to provide financial assistance to instrumentalities of the Commonwealth at any time. For a discussion of the level and types of loans provided by the Bank to the

Commonwealth and its instrumentalities, see "Loans to the Commonwealth, its Public Corporations and Municipalities" under *The Bank.*

Because of the role played by the Bank as lender to the Commonwealth and its instrumentalities and the effect that the financial condition of the Commonwealth and its instrumentalities may have on the financial condition and results of operations of the Bank, this Official Statement includes a discussion of recent developments relating to the Commonwealth's approved budget for fiscal year 2011 and preliminary results for fiscal year 2010. For the same reason, this Official Statement also incorporates by reference the Commonwealth's Financial Information and Operating Data Report, dated May 1, 2010 (the "Commonwealth Report"), which has been filed by the Commonwealth with the Municipal Securities Rulemaking Board ("MSRB") through the Electronic Municipal Market Access System ("EMMA") (http://emma.msrb.org). Deloitte & Touche LLP, independent auditors for the Bank and the Commonwealth, has not been engaged to perform and has not performed any procedures on the financial information addressed in the Commonwealth Report which is incorporated by reference in this Official Statement.

The Commonwealth Report includes important operating and financial information about the Commonwealth, including information about its economy, historical revenues and expenditures of its General Fund, the estimated year-end results of fiscal year 2009, preliminary results for fiscal year 2010, the proposed budget for fiscal year 2011, and the debt of the Commonwealth's public sector. Purchasers of the Notes should read the Commonwealth Report in its entirety and in conjunction with the information under the caption *Recent Developments Relating to the Commonwealth* herein.

This Official Statement includes descriptions of the Bank as well as summaries of the terms of the Notes and the Indenture. Such summaries and the references to all documents included herein do not purport to be complete, and each summary and reference is qualified in its entirety by reference to each such document, copies of which are available from the underwriters prior to the issuance of the Notes and from the Trustee thereafter. All references to the Notes are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture.

Incorporation of Commonwealth Financial Information

This Official Statement incorporates by reference the Commonwealth Report.

Any appendix of an Official Statement or other disclosure document of the Commonwealth or of any instrumentality of the Commonwealth containing any revision to the Commonwealth Report that is filed with the MSRB through EMMA, or any new or revised Commonwealth Report or other document containing information that modifies or supersedes the information contained in the Commonwealth Report that is filed with the MSRB through EMMA, in each case after the date hereof shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained in the Commonwealth Report or elsewhere herein shall be deemed to be modified or superseded to the extent that a statement contained in any such subsequently filed document modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. Any filing with the MSRB through EMMA by the Bank of a document generally containing the same information set forth in its continuing disclosure reports or financial statements, after the date hereof and prior to the termination of any offering of the Notes, shall also be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document.

The Bank will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth Report incorporated herein by reference. Requests should be directed to Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-2525.

A copy of the Commonwealth Report may also be obtained through EMMA at www.emma.msrb.org or by visiting the Bank's website at www.gdbpr.com. No additional information on the Bank's website is deemed to be a part of or incorporated by reference in this Official Statement.

RECENT DEVELOPMENTS RELATING TO THE COMMONWEALTH

Because of the role played by the Bank as lender to the Commonwealth and its instrumentalities and the effect that the financial condition of the Commonwealth and its instrumentalities may have on the financial condition and results of operations of the Bank, this Official Statement includes the following information with respect to recent developments affecting the Commonwealth.

Approved Budget for Fiscal Year 2011

On July 2, 2010, the Governor signed a General Fund budget for fiscal year 2011 of approximately $9.133 billion. The approved budget provides for total General Fund revenues of approximately $8.133 billion, compared to estimated General Fund revenues of $7.670 billion for fiscal year 2010. The proposed fiscal year 2011 budget provides for total expenditures of approximately $9.133 billion, consisting of General Fund expenditures of approximately $8.133 billion and additional expenditures of $1.0 billion that will be funded with proceeds from bonds issued by the Puerto Rico Sales Tax Financing Corporation. The proposed total expenditures for fiscal year 2011 are approximately $9.133 million, or 10.2% lower than budgeted total expenditures of $10.170 billion for fiscal year 2010, and $2.117 billion, or 18.8% lower than estimated total expenditures of $11.250 billion for fiscal year 2009.

Preliminary Results for Fiscal Year 2010

Total preliminary General Fund revenues for fiscal year 2010 were $7.691 billion, an increase of $21 million, or 0.3%, from the $7.670 billion of budgeted revenues for fiscal year 2010.

INVESTMENT CONSIDERATIONS

Prospective purchasers should consider carefully the following investment considerations and other information in this Official Statement before deciding to invest in the Notes. The following discussion of investment considerations involved in purchasing and owning the Notes is not, and is not intended to be, a complete list of the considerations associated with the purchase of the Notes and does not necessarily reflect the relative importance of the various factors. Prospective purchasers of the Notes are advised to consider the following investment considerations, among others, and to review the other information in this Official Statement when evaluating an investment in the Notes.

Risks related to the Bank's operations

Fiscal situation and condition of the Commonwealth, its public corporations and municipalities may negatively affect the financial condition and liquidity of the Bank

One of the Bank's principal functions is to provide financing to the Commonwealth, its public corporations and municipalities. This financing includes interim loans to finance the capital expenditures of the Commonwealth in anticipation of the issuance of bonds and notes, and loans to cover operational deficits of those governmental entities. The aggregate amount of these loans by the Bank has generally increased in recent years as a result of (i) the deterioration of the fiscal situation and financial condition of the Commonwealth and its principal public corporations, as well as certain municipalities, and (ii) general market conditions as a result of the global financial crisis, which market conditions have negatively affected the ability of the Commonwealth and its public corporations to permanently finance their capital expenditures and operating deficits by issuing bonds and notes. Any further deterioration of the fiscal situation and financial condition of the Commonwealth and its public corporations and municipalities may have an adverse effect on the financial condition and liquidity of the Bank.

The access of the Commonwealth and its public corporations to funding through the bond market to finance their capital improvement programs, as well as any future operating deficits, may be adversely affected if their respective credit ratings are downgraded. If the credit ratings of the Commonwealth or any of its public corporations are reduced, the Bank may be asked to provide financing for these capital improvement programs or for working capital needs. The Bank is not required by law to provide such financing. Under a law enacted in 2001, the Bank is prohibited from making loans to any governmental entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislative Assembly, with certain limited exceptions (including up to an aggregate amount of $200 million in loans without Legislative Assembly approval (the amount is reduced to $100 million in aggregate loans after June 30, 2011)), including if such loan is needed to cover the governmental entity's debt service. The Bank generally does not provide financing to any governmental entity of the Commonwealth unless the Bank reasonably believes that the borrowing governmental entity will have sufficient resources, including the ability to issue bonds or notes or otherwise borrow funds, to repay such loan. The Bank, however, has provided financing in the past and may continue to provide financing to government entities that do not have sufficient independent resources to cover operating expenses, to the extent permitted by law. A material increase in the amount of loans to the public sector, coupled with continued deterioration of the public sector's fiscal situation and financial condition may have an adverse effect on the Bank's financial condition and liquidity. For additional information on the fiscal situation and financial condition of the Commonwealth, please refer to the Commonwealth Report and the information that appears under the caption *Recent Developments Relating to the Commonwealth* herein.

If the Bank's level of public sector loans increases as a result of the reasons mentioned above, or if debt service payments to the Bank on these loans were not made as scheduled, the Bank may need to increase its borrowings or otherwise access alternate sources of funds.

The Bank's ability to access sources of funding could be affected by several factors

The Bank's ability to issue additional debt in the capital markets could be affected by a number of factors, including specific factors such as a downgrade of its credit rating, whether or not on account of any downgrade of the Commonwealth's credit rating, and general market factors such as the volatility and disruption that have been affecting the capital and credit markets.

In addition, a significant portion of the Bank's deposits are from government instrumentalities, public corporations and municipalities. The Bank's liquidity could be adversely affected if such government instrumentalities, public corporations or municipalities require such funds for their operations or to pay their debt or other obligations.

Although the Bank believes that it has adequate alternate sources of funds, such as deposits of government instrumentalities currently held by private banks, no assurance can be given that the Bank would in fact be able to access these alternate sources of funds.

Adverse movements in interest rates may negatively affect the Bank's net interest income and value of its investments

Adverse movements in interest rates may negatively affect the Bank's net interest income and the value of its investments. Interest rates are highly sensitive to many factors, such as governmental monetary policies and domestic and international economic and political conditions that are beyond the control of the Bank.

Increases in interest rates may negatively affect the following areas of the Bank's business:

- The net interest income; and
- The value of its investment securities.

Increases in Interest Rates May Reduce Net Interest Income. Increases in short-term interest rates may reduce net interest income, which is one of the principal components of the Bank's earnings. Net interest income is the difference between the amount received by the Bank on its interest-earning assets and the interest paid by the Bank on its interest-bearing liabilities. When interest rates rise, the Bank must pay more in interest on its liabilities while the interest earned on its assets may not rise as quickly. This may cause the Bank's profits to decrease.

Increases in Interest Rates May Reduce the Value of its Investment Securities. Increases in interest rates may reduce the value of the Bank's financial assets and have an adverse impact on its earnings.

Repayment of Commonwealth public debt has priority over repayment of loans made by the Bank

The Puerto Rico Constitution provides that if the Commonwealth were to have insufficient funds to pay all approved appropriations, the available resources of the Commonwealth would have to be used to pay public debt backed by the full faith and credit of the Commonwealth before being used for any other purpose, including paying any loans due to the Bank.

Risks related to the Notes

The Notes are solely the Bank's obligations and it does not have taxing power

The Notes are not obligations of the Commonwealth or any of its instrumentalities or political subdivisions, other than the Bank. The Notes will be solely the Bank's obligations, and no other entity will have any obligation, contingent or otherwise, to make any payments with respect to the Notes. The Bank does not have any taxing power.

The ability of the Bank to make payments in amounts sufficient to provide for payment of the principal of and interest on the Notes could be adversely affected by the occurrence of certain events, including, without limitation, the events and circumstances described in the other Investment Considerations included in this section.

The Notes are not guaranteed by the assets of the Bank's subsidiaries

Because the Notes are issued by the Bank and are not guaranteed by the Bank's subsidiaries, holders of the Notes will not have recourse against the Bank's subsidiaries. As of June 30, 2009, approximately $1.6 billion out of the Bank's consolidated total assets of $14.0 billion were held by the Bank's subsidiaries and are, therefore, unavailable for the payment of debt service on the Notes. As of March 31, 2010, total assets held by the Bank's subsidiaries were $1.5 billion out of a total of $13.6 billion.

Some or all of the Notes may be subject to early redemption by the Bank

The Bank may choose to redeem some or all of the Notes (to the extent some or all of the Notes are subject to optional redemption by the Bank), at times when prevailing interest rates are lower than when the Notes were issued. If this happens, holders of the Notes may not be able to reinvest the proceeds received in a comparable security at an effective interest rate as high as that of the Notes.

The enforceability of remedies may not be available or may be limited

The remedies available to the owners of the Notes upon an event of default under the Indenture or other documents described herein depend upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Indenture and the various related documents may not be applicable, readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Notes will be qualified as to

the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity.

The market value of the Notes may be affected by a negative change in their rating

The rating initially assigned to the Notes may be lowered or withdrawn by the rating agency at any time. Such rating changes could adversely affect the value of and market for the Notes.

A secondary market for the Notes may not develop

There is currently no secondary market for the Notes, and there can be no assurance that a secondary market will develop, or if it does develop, that it will provide holders of the Notes with liquidity for their investment or that it will continue for the life of the Notes. The Underwriters do not have a legal obligation to maintain a market for the Notes.

USE OF PROCEEDS

The Bank will use the proceeds from the sale of the Notes for general corporate purposes, including, but not limited to, redeeming certain outstanding notes, 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 is planning to use a portion of the proceeds of the Notes to redeem the following outstanding notes previously issued under the Indenture:

Maturity Date February 1,	Principal Amount	Interest Rate	CUSIP Number
Senior Notes, 2008 Series A			
2014	$ 171,325,000	6.00%	745177DB8
2016	26,638,000	6.25	745177DC6
2019	159,826,000	6.50	745177DE2
Senior Notes, 2008 Series B			
2014	$ 79,175,000	6.00%	745177DH5
2016	6,462,000	6.25	745177DJ1
2019	75,174,000	6.50	745177DL6
Senior Notes, 2009 Series A			
2014	$ 95,000,000	6.00%	745177DQ5
2016	5,000,000	6.25	745177DR3
2019	46,000,000	6.50	745177DS1
Total due in 2014	**$ 345,500,000**		
Total due in 2016	**38,100,000**		
Total due in 2019	**281,000,000**		
Total	**$ 664,600,000**		

THE NOTES

General

The Notes will be dated their date of delivery and will mature (subject to prior redemption as described below) on the dates and amounts set forth in the inside cover page of this Official Statement. The Notes will be issued as fully registered notes without coupons, in denominations of $5,000 principal amount and integral multiples of $1,000 in excess thereof.

Interest on the Notes will accrue from their date of issuance at the rates set forth on the inside cover page of this Official Statement and will be paid monthly on the first day of each month, commencing on September 1, 2010, until maturity or prior redemption. Interest on the Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

DTC will act as securities depository for the Notes. The Notes will be issued in fully-registered form and registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC.

Optional Redemption

The Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part (and if in part, in such order of maturity as directed by the Bank), 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.

Notice and Effect of Redemption; Partial Redemption

Any redemption of the Notes, either in whole or in part, will be made upon at least 20 days' prior notice by mail to DTC or, if the book-entry only system described below has been discontinued, by first-class mail, postage prepaid, to all registered owners of the Notes to be redeemed in the manner and under the terms and conditions provided in the Indenture. On the date designated for redemption, notice having been given as provided in the Indenture and moneys for payment of the principal of and accrued interest on the Notes or portions thereof so called for redemption being held by the Trustee, interest on the Notes or portions thereof so called for redemption shall cease to accrue.

Each notice of redemption will contain, among other things, a description of the particular Notes (or portions thereof) being called for redemption, the redemption date and price and the address at which such Notes will be surrendered for payment of the redemption price. Any defect in such notice or the failure to mail any such notice to DTC in respect of, or the registered owner of, any Note will not affect the validity of the proceedings for the redemption of any other Note.

If less than all the Notes of any maturity are called for redemption, the particular Notes so called for redemption will be selected by the Trustee by such method as it deems fair and appropriate, except that so long as the book-entry only system remains in effect, in the event of any such partial redemption, DTC will reduce the credit balances of the applicable DTC Participants in respect of the Notes and such DTC Participants will, in turn, select those Beneficial Owners whose ownership interests will be extinguished by such partial redemption, each by such method as DTC or such DTC Participant, as the case may be, in its sole discretion, deems fair and appropriate.

Unsecured Obligations of the Bank

The Notes and the other notes that are issued and may be issued under the Indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Bank guarantees of obligations of others for borrowed money now or hereafter outstanding. Neither the good faith, credit and taxing power of the Commonwealth nor that of any of its political subdivisions or instrumentalities will be pledged for the payment of the Notes and the other notes that are issued and may be issued under the Indenture.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC"), New York, New York and DTC's book-entry system has been obtained from DTC. None of the Bank, the Trustee or the Underwriters takes any responsibility for the accuracy thereof.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of a Note ("Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive Notes representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal payments and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bank, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bank, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive Notes will be printed and delivered.

The Bank may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, definitive Notes will be printed and delivered.

Payments and Transfers

No assurance can be given by the Bank that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Bank is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the Notes, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of the Notes shall be payable in lawful money of the United States of America at the principal office of the Trustee in San Juan, Puerto Rico. Interest on the Notes will be payable by check mailed to the respective addresses of the registered owners determined as of the 15th day of the month preceding the interest payment date as shown on the registration books of the Bank maintained by the Trustee. The Notes will be issued only as registered notes without coupons in denominations of $5,000 and integral multiples of $1,000 in excess thereof. The transfer of the Notes will be registrable and they may be exchanged at the corporate trust office of the Trustee in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

THE BANK

Organization and Powers

The Bank is a public corporation and governmental instrumentality of the Commonwealth, created by Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended (the "Charter"). The Charter provides that the Bank's existence will be perpetual, and that no amendment to the Charter, or to any other law of Puerto Rico, will impair any outstanding obligation or commitment of the Bank. Under its Charter, the Bank has the power, among other things, to borrow money, to issue its bonds, notes, debentures, and other obligations, to lend money to and purchase obligations issued by the Commonwealth, its agencies and instrumentalities, to lend money to any other person when such moneys are to be used to develop the economy of Puerto Rico, and to sue and be sued. See "General Financial Information" below.

The Bank is generally exempt from Commonwealth taxation. It is required to have an annual examination and audit by certified public accountants of national reputation selected by its Board of Directors. The Bank is subject to examination and supervision by the Commissioner of Financial Institutions of Puerto Rico. The Comptroller of Puerto Rico, who is responsible to the Legislature, also reviews the operations of the Bank from time to time.

Principal Functions

The principal functions of the Bank are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities and public corporations in connection with the issuance of bonds and notes, to make loans and advances to public corporations and municipalities, and to promote the economic development of Puerto Rico. In its role as fiscal agent and financial advisor, it acts as advisor to the Commonwealth and its instrumentalities in connection with all their borrowings, and all such borrowings are subject to prior approval by the Bank. The Bank receives fees for rendering such services.

The Bank lends to, and purchases and guarantees certain obligations of, the Commonwealth and its agencies, public corporations and municipalities. It provides interim financing to those entities in anticipation of refinancing such indebtedness in the bond market and also provides long-term financing to such entities. In fiscal years 2009, 2008, and 2007, the Bank disbursed individual lines of credit and other financing facilities to the public sector in aggregate amounts of approximately $3.8 billion, $2.8 billion, and $1.1 billion, respectively. For a breakdown of the outstanding principal amount of certain of the Bank's loans to the public sector, see the table under "Loans to the Commonwealth, its Public Corporations and Municipalities" below.

The Bank also lends to the private sector, mainly through its subsidiaries, the Tourism Development Fund and the Housing Finance Authority. For a description of the Bank's loans to the private sector, see "Loans to Private Enterprises" below. From time to time, the Bank also issues letters of credit to guarantee obligations of private lenders with respect to financing arrangements that promote the development of the Commonwealth's economy.

Board of Directors and Management

The Bank is governed by a seven member Board of Directors appointed by the Governor of Puerto Rico with the approval of the Council of Secretaries. The Board of Directors currently consists of the following members serving terms as indicated:

Member	Commencement of Term	Expiration Date
Carlos M. García, Chairman	January 15, 2009	September 23, 2010
Marcos Rodríguez-Ema	January 15, 2009	September 23, 2011
Manuel H. Dubón	February 2, 2009	September 23, 2012
Pedro Ray	January 23, 2009	September 23, 2011
Juan E. Rodríguez Díaz	February 20, 2009	September 23, 2012
Agnes B. Suárez	July 1, 2009	September 23, 2010
Angel A. Fullana Olivencia	February 2, 2010	September 23, 2010

The Board of Directors appoints a President who is the chief executive officer of the Bank and is responsible for its day-to-day operations.

The Bank also has four executive vice presidents who are in charge of the Bank's principal operational and business units. The following are the Bank's principal officers:

Carlos M. García was appointed President of the Bank on December 31, 2008. Before being named President of the Bank, Mr. García served as President of Banco Santander Puerto Rico since August 2008 and Senior Executive Vice President and Chief Operating Officer of Santander BanCorp and Banco Santander Puerto Rico since January 2004. Mr. García served as a member of the Board of Directors of Santander BanCorp and several of Santander BanCorp's subsidiaries and affiliates, including Banco Santander Puerto Rico, Santander Securities Corporation, Santander Asset Management Corporation, Santander Insurance Agency, Inc., Santander Financial Services, Inc., Island Insurance Corporation, Crefisa, Inc. and Santander Overseas Bank, Inc. Mr. García serves as Director of Make-a-Wish Foundation of Puerto Rico. Mr. García served as President and Chief Executive Officer of Santander Securities Corporation from August 2001 to January 2006. Mr. García joined Santander Securities Corporation in 1997 as Director of its Investment Banking Department, and Banco Santander Puerto Rico in October 2003 as Executive Vice President of Wholesale Banking. From 1993 to 1997, Mr. García worked at Credit Suisse First Boston (Puerto Rico, Inc.), which later was acquired by Popular Securities, Inc. Mr. García holds a dual degree in Business from the Wharton School and in Comparative Literature from the College of Arts and Sciences of the University of Pennsylvania.

Fernando L. Batlle was appointed Executive Vice President and Director of Financing, Investments and Treasury on January 7, 2009. Before being named Executive Vice President of the Bank, from 2005-2008, Mr. Batlle served as an independent financial consultant for various corporations located within Puerto Rico and the Dominican Republic. From 1997 to 2005, Mr. Batlle served as Executive Vice President of FirstBank Puerto Rico. While employed at FirstBank Puerto Rico, Mr. Batlle served as President, Chief Operating Officer and Director of First Express, Inc., First Trade, Inc., First Insurance Agency V.I., Inc., and First Mortgage, Inc. In addition, Mr. Batlle served as Director of First Leasing and Rental Corporation, Money Express, Inc., FirstBank Insurance Agency, Inc. and FirstBank Overseas Corporation. From April 1996 to October 1997, he served as Managing Director of Neva Management Corporation, an investment management firm. From December 1994 to April 1996, Mr. Batlle served as Senior Vice President of the Investments Department and Treasurer of FirstBank Puerto Rico, and from June 1994 to December 1994, Vice President, Secondary Market at FirstBank Puerto Rico. From 1989 to August 1992, he served as Assistant Vice President of Puerto Rico Home Mortgage. Mr. Batlle holds a Master's Degree in Business Administration from Harvard University Graduate School of Business and a Bachelor's Degree from Northeastern University.

Jesús F. Méndez was appointed Executive Vice President and Director of Administration, Operations and Controllership on January 7, 2009. He was also appointed Executive Director of the Puerto Rico Public Buildings Authority ("PBA"). Before being named Executive Vice President of the Bank, from 2005 to 2008, Mr. Méndez held the position of President and Chief Executive Officer of Tresamici Management, Inc, a closely held corporation dedicated to the administration of assisted living facilities, of which he holds a one-third ownership participation. From 1996 to 2004 he held several senior management positions within

Banco Santander S.A. operating entities in Puerto Rico including, President of Santander Asset Management and First Senior Vice President and Trust Officer of Banco Santander Puerto Rico and Managing Director of Santander Securities Corporation. Prior to joining Santander Securities, Mr. Méndez served as Chief Financial Officer and Managing Director of BP Capital Markets. He also worked for Credit Suisse First Boston (Puerto Rico, Inc.) as Vice President and for Deloitte & Touche as Senior Auditor. In addition, Mr. Méndez also held the position of Assistant Bank Examiner at the Federal Deposit Insurance Corporation in New York City. Mr. Méndez has a Bachelor's Degree in Business Administration from the University of Puerto Rico and is a Certified Public Accountant.

Juan Carlos Pavía was appointed Executive Vice President and Fiscal Agent in April 2010. Mr. Pavia also currently serves as Executive Director of the Fiscal Reconstruction and Stabilization Board, created pursuant to Act No. 7 of March 9, 2009. Before being named Executive Vice President of the Bank, Mr. Pavia served as Senior Advisor to the President of the Bank. In addition, Mr. Pavía served as Deputy Advisor to Governor Fortuño on Economic Development and Finance from January 2009 until November 2009. Before working for the Government, Mr. Pavía worked as Portfolio Manager of the Asset Based Lending Division of Westernbank Puerto Rico. Mr. Pavía also served as member of the Senior Credit Committee of the Asset Based Lending Division of Westernbank Puerto Rico. Mr. Pavía joined Westernbank in 2004 as Commercial Banking Officer in the Products and Development Department. Mr. Pavía served as the Chairman of the Strategic Planning Committee of the Caribbean Tennis Association's Board of Directors from 2005 to 2007. Mr. Pavía holds a Bachelor's Degree in Business Administration from the George Washington University.

Jorge A. Rivera, Esq. was appointed General Counsel on February 9, 2009, and Executive Vice President in February 2010. Before being named General Counsel of the Bank, Mr. Rivera was a partner at Pietrantoni Méndez & Alvarez LLP. Mr. Rivera has extensive experience counseling clients in corporate and commercial matters. As a lawyer in private practice, Mr. Rivera regularly advised banks, investment banks and other clients in a number of corporate, securities and regulatory matters, including the regulation of financial reporting, public company disclosure and reporting under the U.S. federal securities laws. He also assisted public and private companies in structuring a broad range of capital market transactions, such as public and private offerings of securities, purchases and sales of assets and stock, and bank and thrift branch sales and purchases. Mr. Rivera's experience also includes service as a staff attorney with the U.S. Securities and Exchange Commission, where he reviewed registration statements, transactional filings, proxy statements and other periodic reports by publicly-traded companies. Mr. Rivera holds a Juris Doctor degree from the University of Puerto Rico School of Law, a Master of Laws degree from the Georgetown University Law Center and a Bachelor's Degree in Business Administration from the University of Puerto Rico. Mr. Rivera also serves as Secretary of the Board of Directors of the Bank.

As of March 31, 2010, the Bank, its subsidiaries and affiliates had approximately 468 employees, 132 of which were members of the Union of Employees of Government Development Bank for Puerto Rico.

The main offices of the Bank are located at Roberto Sánchez Vilella Government Center, De Diego Avenue, P.O. Box 42001, San Juan, Puerto Rico 00940, and its telephone number is (787) 722-2525.

Government Development Bank Subsidiaries

The principal subsidiaries of the Bank and their functions are listed below:

Housing Finance Authority. Puerto Rico Housing Finance Authority (formerly known as Puerto Rico Housing Finance Corporation) ("Housing Finance Authority") was created to provide needed rental housing units and stimulate the construction industry under federally subsidized programs. Effective February 8, 2002, Housing Finance Corporation became the Housing Finance Authority and the Housing Bank and Finance Agency was dissolved and its powers transferred to the Housing Finance Authority. Housing Finance Authority provides financing for rental housing units, stimulates the construction industry under federally subsidized programs and provides interim financing for low-income housing projects and single-family homeownership

programs. It is also engaged in insuring and servicing mortgages originated by the former Housing Bank and Finance Agency. As of March 31, 2010, the Housing Finance Authority's total outstanding principal balance of loans to the private sector for development of housing projects targeted to low and moderate income families was $134.3 million. The Housing Finance Authority's mortgage loans to low and moderate income homeowners represented an additional outstanding principal balance of $99.3 million as of the same date.

The Housing Finance Authority has outstanding tax-exempt revenue bonds, the proceeds of which were loaned to the Puerto Rico Public Housing Administration to finance improvements to various housing projects in the Commonwealth. Such bonds are limited obligations of the Housing Finance Authority, payable solely from revenues collected from such housing projects, with certain exceptions. As of March 31, 2010, $816 million of these bonds were outstanding.

As of March 31, 2010, the Housing Finance Authority had total notes and bonds outstanding of $1,003.4 million (including $102.6 million of debt outstanding under lines of credit with the Bank and $340.4 million of bonds issued to fund certain payments under its mortgage subsidy programs for low and moderate income families). As of March 31, 2010, the Housing Finance Authority had total unrestricted net assets of $339.1 million.

Tourism Development Fund. The Puerto Rico Tourism Development Fund ("Tourism Development Fund") was created in November 1993 to promote Puerto Rico's hotel and tourism industry by making available direct loans and guarantees to secure the payment of private financing used for new hotel development projects. The Tourism Development Fund is also authorized to make capital investments in tourism related projects. As of March 31, 2010, the Tourism Development Fund had outstanding direct loans in an aggregate carrying amount of $293.5 million and guarantees and letters of credit issued in the outstanding amount of $116 million to finance several hotels and tourism-related projects. In addition, the Tourism Development Fund has a $50 million equity investment in another tourism-related project.

The Tourism Development Fund has made payments under its guarantees and letters of credit in the aggregate amount of approximately $313.8 million with respect to several projects, including $282 million disbursed to pay in full the bonds issued to finance three projects, which bonds had been declared due and payable at the direction of the Tourism Development Fund due to the failure of the borrowers of such projects to comply with their obligations under the related reimbursement agreements. Of the total amount disbursed, the Tourism Development Fund has been able to recover approximately $199.7 million from the borrowers. After taking these payments and all related recoveries into consideration, the unrestricted net assets of the Tourism Development Fund as of March 31, 2010, were approximately $102.1 million, and its allowances for losses on loans and guarantees and letters of credit were approximately $60.8 million.

Capital Fund. Government Development Bank for Puerto Rico's Capital Fund (the "Capital Fund") was created in November 1992 for the purpose of investing and trading in debt obligations and publicly traded shares of domestic and foreign corporations separate from the Bank's general investment operations. As of March 31, 2010, the Capital Fund had assets of $78.9 million, consisting principally of investments in equity indexed funds and global equity.

Development Fund. The Puerto Rico Development Fund (the "Development Fund") was established in April 1977 to provide an alternate source of financing to private enterprises. The Development Fund is also authorized to guarantee obligations of those private enterprises and invest in their equity securities. As of March 31, 2010, the Development Fund had assets of $37.3 million, including investments of $3.4 million in preferred shares of a private medical conglomerate that owns various hospitals in Puerto Rico and $4.7 million in preferred shares of an entity which owns commercial chicken production facilities in Puerto Rico. In addition to the latter, Development Fund approved a credit facility to the same entity in the amount of $9.6 million. As of March 31, 2010 said loan had not been disbursed.

Public Finance Corporation. Puerto Rico Public Finance Corporation ("Public Finance Corporation") was established in November 1984 to provide agencies and instrumentalities of the Commonwealth with alternate means of meeting their financing requirements. The trustees of certain no-commitment bonds issued by the Public Finance Corporation currently hold notes payable by the Commonwealth, the Maritime Shipping Authority, the Office for the Improvement of Public Schools, the Department of Health, and the Aqueduct and Sewer Authority, among others. All such bonds are limited non-recourse obligations of Public Finance Corporation payable solely from government appropriations made to pay the notes held by the trustees. As of March 31, 2010, Public Finance Corporation had $1.6 billion aggregate principal amount of no-commitment bonds outstanding.

General Financial Information

The tables that follow provide financial information of the Bank. Except as otherwise specified, such financial information is presented on a consolidated basis. The financial information is presented in accordance with the requirements of Governmental Accounting Standards Board Statement No. 34 ("GASB 34"). Financial information as of and for the years ended June 30, 2009, 2008 and 2007 was derived from the Bank's audited financial statements. This information should be read together with the Bank's financial statements as of and for the year ended June 30, 2009, attached as *Appendix I* to this Official Statement. Financial information as of and for the nine-month periods ended March 31, 2010 and 2009 was derived from the Bank's accounting records.

The Bank's activities consist of governmental and business-type activities. Governmental activities are generally financed through taxes, intergovernmental revenues, and governmental appropriations. Business-type activities are financed in whole or in part by fees charged to third parties for goods or services. The Housing Finance Authority accounts for all of the Bank's governmental activities. Except where otherwise noted, the following tables include both governmental and business-type activities.

Consolidated Schedule of Net Assets

Set forth below is the consolidated Schedule of Net Assets of the Bank and its subsidiaries as of June 30, 2009, 2008 and 2007, which has been derived from the Bank's audited financial statements, and as of March 31, 2010 and 2009, which has been derived from the Bank's accounting records. The consolidated Schedule of Net Assets provides information on the assets and liabilities of the Bank and its subsidiaries, and includes both governmental and business-type activities.

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	As of March 31		As of June 30		
	2010	2009	2009	2008	2007
Assets:					
Cash and due from banks	$ 9,946,950	$ 3,038,848	$ 5,848,209	$ 60,212,101	$ 5,854,764
Federal funds sold	109,350,000	50,000,000	1,364,000,000	316,620,000	945,500,000
Deposits placed with banks	90,546,881	178,602,308	1,085,257,933	1,533,888,304	1,870,443,074
Investments and investment contracts	4,149,655,238	2,959,242,510	2,580,994,163	2,635,014,277	794,926,883
Loans receivable, net	7,109,557,680	6,757,689,934	6,677,450,043	5,454,425,371	6,231,555,111
Interest and other receivables	101,697,563	296,817,844	191,390,695	259,623,379	469,701,649
Restricted Assets:					
Cash and due from banks	10,448,160	2,836,743	20,132,629	26,729,908	29,120,531
Deposits placed with banks	4,171,947	29,532,617	27,470,438	82,105,513	53,634,790
Due from federal government	-	22,256,199	-	20,936,674	18,823,323
Investments and investment contracts	1,710,860,960	1,611,537,451	1,792,596,262	1,770,847,186	1,340,265,733
Loans receivable, net	3,408,093	8,228,265	7,953,901	8,993,589	10,206,163
Interest and other receivables	5,669,072	6,317,447	5,414,582	6,079,549	4,111,071
Real estate available for sale	1,247,127	1,508,273	1,810,718	1,980,493	2,026,448
Other assets	6,571,487	7,660,544	7,372,112	8,211,544	6,363,700
Real estate available for sale	203,593,099	227,059,587	203,396,509	58,117,974	66,688,439
Capital assets	16,275,748	17,904,683	17,452,258	27,396,841	24,525,247
Other assets	82,108,606	48,936,372	50,614,763	44,811,983	53,337,416
Total assets	13,615,108,611	12,229,169,625	14,039,155,215	12,315,994,686	11,927,084,342
Liabilities:					
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:					
Demand	3,056,016,130	2,047,930,974	3,187,494,544	2,720,148,159	2,013,882,933
Certificates of deposit	2,599,449,806	3,742,512,139	4,367,312,924	4,283,385,449	3,444,110,622
Securities sold under agreements to repurchase	1,127,239,590	784,634,579	859,053,110	687,200,000	455,000,000
Commercial paper	-	500,000	-	500,000	575,861,000
Certificates of indebtedness	11,800,000	11,800,000	11,800,000	11,800,000	11,800,000
Bonds and notes payable, due within one year	158,718,019	74,028,730	72,659,611	93,355,224	117,019,505
Accrued interest payable	33,612,129	37,800,725	22,579,090	24,955,038	45,384,277
Due to Commonwealth of Puerto Rico	-	-	-	-	1,048,626
Accounts payable and accrued liabilities	74,267,009	90,055,059	48,162,048	64,943,966	82,183,379
Allowance for losses on guarantees and letters of credit	10,162,804	3,583,959	11,370,874	3,113,395	2,493,343
Participation agreement payable	26,000,000	26,000,000	26,000,000	26,000,000	26,000,000
Bonds and notes payable due in more than one year	3,204,443,196	2,004,229,308	2,004,876,929	867,436,214	1,838,226,982
Liabilities payable from restricted assets:					
Accrued interest payable	3,501,908	4,641,266	2,609,213	3,219,730	2,926,535
Accounts payable and accrued liabilities	12,380,333	14,778,851	15,421,420	20,957,005	23,647,675
Bonds and mortgage-backed certificates payable:					
Due in one year	59,640,000	64,810,000	64,019,136	63,447,231	70,697,619
Due in more than one year	688,446,084	900,535,662	895,114,148	1,086,809,893	945,561,556
Total liabilities	11,065,677,008	9,807,841,252	11,588,473,047	9,957,271,304	9,655,844,052
Net assets:					
Invested in capital assets	16,275,748	17,904,683	17,452,258	27,396,841	24,525,247
Restricted for:					
Debt service	-	31,227,528	29,079,599	30,522,788	25,503,670
Affordable housing programs	237,496,205	168,425,078	177,745,445	259,979,021	225,287,284
Mortgage loan insurance	70,561,604	57,784,441	58,599,573	54,385,644	49,134,920
Unrestricted assets	2,225,098,046	2,145,986,643	2,167,805,293	1,986,439,088	1,946,789,169
Total net assets	$ 2,549,431,603	$ 2,421,328,373	$ 2,450,682,168	$ 2,358,723,382	$ 2,271,240,290

Schedule of Balance Sheet Information – Government Development Bank Operating Fund

Set forth below is the Schedule of Balance Sheet Information of the Bank as of June 30, 2009, 2008 and 2007, and as of March 31, 2010 and 2009, excluding its subsidiaries. The information for fiscal years 2009, 2008 and 2007 is derived from the column titled "GDB Operating Fund" included in the balance sheet for the Enterprise Funds set forth in the Bank's audited consolidated financial statements. Information provided for March 31, 2010 and 2009 has been derived from the Bank's accounting records.

	As of March 31		As of June 30		
	2010	2009	2009	2008	2007
ASSETS					
Current assets:					
Cash and due from banks	$ 16,399,895	$ 2,925,883	$ 5,770,346	$ 59,818,358	$ 5,750,881
Federal funds sold	109,350,000	50,000,000	1,364,000,000	316,620,000	945,500,000
Deposits placed with banks	57,510,314	135,878,436	1,060,597,756	1,505,000,000	1,820,057,870
Investments and investment contracts	3,487,687,045	2,510,530,512	2,281,415,520	2,007,599,088	166,813,700
Loans receivable–net	608,794,827	548,329,186	801,029,454	802,644,635	2,455,109,277
Accrued interest receivable	101,129,827	294,551,738	120,307,996	258,507,954	468,515,173
Other current receivables	42,952,074	15,578,408	66,513,619	21,794,518	25,980,933
Other current assets	1,394,724	1,214,419	976,268	1,017,745	685,851
Due from governmental funds	98,700,218	110,767,005	109,840,613	112,101,375	108,912,119
Restricted:					
Investments and investment contracts	694,383,355	437,050,348	365,539,760	34,996,500	49,787,500
Total current assets	5,218,302,279	4,106,825,935	6,175,991,332	5,120,100,173	6,047,113,304
Noncurrent assets:					
Restricted:					
Investments and investment contracts	485,509,107	431,267,408	576,258,797	705,854,918	442,816,442
Investments and investment contracts	474,920,577	344,521,471	326,106,666	583,317,273	552,580,182
Loans receivable–net	6,345,558,988	6,002,799,230	5,675,735,320	4,399,777,543	3,553,541,364
Real estate available for sale	202,229,223	223,937,207	200,959,644	56,323,019	66,022,902
Capital assets	12,566,056	13,634,081	13,293,463	22,850,528	22,026,095
Other assets	26,536,658	20,481,142	41,734,759	7,565,617	15,142,636
Total noncurrent assets	7,547,320,609	7,036,640,539	6,834,088,649	5,775,688,898	4,652,129,621
Total assets	$12,765,622,888	$11,143,466,474	$13,010,079,981	$10,895,789,071	$10,699,242,925

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	As of March 31		As of June 30		
	2010	2009	2009	2008	2007
LIABILITIES					
Current Liabilities:					
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:					
Demand	$3,135,578,042	$2,125,913,271	$3,250,161,806	$2,780,562,925	$2,073,872,474
Certificates of deposit	2,721,130,425	4,185,715,029	4,852,867,272	4,578,483,723	3,682,738,483
Certificates of indebtedness	7,500,000	-	-	-	-
Securities sold under agreements to repurchase	787,239,590	344,634,579	419,053,110	207,200,000	-
Commercial paper	-	500,000	-	500,000	575,861,000
Accrued interest payable	40,123,940	43,942,066	34,464,747	36,027,309	56,205,078
Accounts payable and accrued liabilities	63,952,055	55,449,587	27,869,426	38,772,134	22,727,701
Due to governmental funds	16,762,510	34,836,468	34,042,141	24,766,706	79,508,206
Due to Commonwealth of Puerto Rico	-	-	-	-	1,013,951
Notes payable	158,718,019	72,784,570	72,659,611	93,204,456	109,140,710
Total current liabilities	6,931,004,581	6,863,775,570	8,691,118,113	7,759,517,253	6,601,067,603
Noncurrent liabilities:					
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	602,961,879	236,119,202	223,045,529	321,382,747	391,413,812
Certificates of indebtedness	4,300,000	11,800,000	11,800,000	11,800,000	11,800,000
Securities sold under agreements to repurchase	340,000,000	440,000,000	440,000,000	480,000,000	455,000,000
Allowance for losses on guarantees and letters of credit	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Accounts payable and accrued liabilities	5,563,382	10,360,346	3,186,855	2,451,157	29,703,459
Bonds and notes payable	3,199,631,958	2,000,662,230	2,000,065,693	862,624,977	1,828,066,950
Total noncurrent liabilities	4,153,457,219	2,699,941,778	2,679,098,077	1,679,258,881	2,716,984,221
Total liabilities	11,084,461,800	9,563,717,348	11,370,216,190	9,438,776,134	9,318,051,824
NET ASSETS					
Invested in capital assets	12,566,056	13,634,081	13,293,463	22,850,528	22,026,095
Unrestricted	1,668,595,032	1,566,115,045	1,626,570,328	1,434,162,409	1,359,165,006
Total net assets	1,681,161,088	1,579,749,126	1,639,863,791	1,457,012,937	1,381,191,101
Total liabilities and net assets	$12,765,622,888	$11,143,466,474	$13,010,079,981	$10,895,789,071	$10,699,242,925

Consolidated Schedule of Revenues, Expenses and Changes in Net Assets – Enterprise Funds

Set forth below is the consolidated Schedule of Revenues, Expenses and Changes in Net Assets – Enterprise Funds for the Bank and its subsidiaries for each of the fiscal years ended June 30, 2009, 2008 and 2007, and the nine months ended March 31, 2010 and 2009. Information regarding fiscal years 2009, 2008 and 2007 was derived from the Bank's audited financial statements. Information regarding the nine months ended March 31, 2010 and 2009 was derived from the Bank's accounting records. The consolidated Schedule of Revenues, Expenses and Changes in Net Assets for the Enterprise Funds provides in more detail the information provided in the Statement of Activities (which is included in the Bank's basic financial statements attached as *Appendix I* to this Official Statement) with respect to the business-type activities of the Bank and its subsidiaries.

	For the nine months ended March 31,		For the year ended June 30,		
	2010	2009	2009	2008	2007
OPERATING REVENUES					
Investment income					
Interest income on federal funds sold	$ 1,304,768	$ 2,452,254	$ 2,902,988	$ 47,676,634	$ 75,433,805
Interest income on deposits placed with banks	20,438,036	30,066,490	37,059,275	112,401,952	71,550,858
Interest and dividend income on investments and investment contracts	62,898,627	104,786,912	137,025,547	128,377,998	132,842,285
Net increase (decrease) in fair value of investments	34,816,228	(11,158,996)	(4,260,072)	(1,168,293)	31,031,723
Total investment income	119,457,659	126,146,660	172,727,738	287,288,291	310,858,671
Interest income on loans receivable					
Public sector	239,992,903	186,838,146	239,211,316	261,387,745	391,158,492
Private sector	16,247,377	18,405,101	20,637,474	27,446,107	30,283,719
Total interest income on loans receivable	256,240,280	205,243,247	259,848,790	288,833,852	421,442,211
Total investment income and interest income on loans receivable	375,697,939	331,389,907	432,576,528	576,122,143	732,300,882
Noninterest income					
Fiscal agency fees	6,604,622	4,047,197	11,408,424	20,488,024	8,977,679
Commitment, guarantee and other service fees	12,518,350	10,000,974	13,579,385	14,006,195	13,545,871
Mortgage loan insurance premiums	2,302,774	2,066,580	3,000,213	3,052,525	2,694,332
Gain (loss) on sale of foreclosed real estate available for sale	(144,335)	346,433	483,266	4,528,663	(37,735)
Gain on sale of loans	-	221,169	335,030	24,776	741,316
Other income	773,263	497,293	944,142	8,088,190	4,752,973
Total noninterest income	22,054,674	17,179,646	29,750,460	50,188,373	30,674,436
Total operating revenues	397,752,613	348,569,553	462,326,988	626,310,516	762,975,318
OPERATING EXPENSES					
Provision (credit) for loan losses	1,165,353	45,165,130	46,461,481	2,093,926	(5,364,468)
Interest expense:					
Deposits	86,506,945	129,473,883	165,773,611	229,712,412	302,397,197
Securities sold under agreements to repurchase	18,968,019	23,820,525	30,635,161	23,917,723	22,618,003
Commercial paper	18,001	14,990	21,757	10,678,317	20,899,500
Certificates of indebtedness	21,825	211,566	240,556	487,903	1,278,083
Bonds and notes payable	166,169,828	109,445,086	163,907,386	167,500,716	203,774,515
Total interest expense	271,684,618	262,966,050	360,578,471	432,297,071	550,967,298
Noninterest expenses					
Salaries and fringe benefits	23,932,775	25,902,987	34,926,256	38,462,533	37,281,743
Depreciation and amortization	2,118,789	2,090,441	2,833,236	2,268,646	2,140,736
Occupancy and equipment costs	4,380,508	4,343,537	6,263,120	5,587,524	4,916,789
Legal and professional fees	2,707,164	3,876,328	6,132,182	5,697,999	5,880,165
Office and administrative	410,647	554,104	801,605	1,168,730	910,660
Subsidy and trustee fees	10,377,520	257,584	266,554	391,140	340,403
Provision (credit) for amount due from Puerto Rico Department of Housing		-	-	227,993	(15,037,672)
Provision (credit) for losses on guarantees and letters of credit	2,011,683	899,668	8,902,995	1,049,849	(13,548)
Provision for mortgage loan insurance	-	-	-	-	392,535
Provision for doubtful accounts receivable	-	-	-	-	17,890,635
Other	11,285,018	1,638,663	6,353,101	(1,407,324)	24,202,139
Total noninterest expenses	57,224,104	39,563,312	66,479,049	53,447,090	78,904,585
Total operating expenses	330,074,075	347,694,492	473,519,001	487,838,087	624,507,415
OPERATING INCOME (LOSS)	67,678,538	875,061	(11,192,013)	138,472,429	138,467,903
NONOPERATING REVENUES (EXPENSES)					
Distributions from Commonwealth of Puerto Rico	38,261,000	-	-	-	-
Contributions to Cooperative Development Investment Fund and other	(2,503,141)	(1,223,414)	(3,458,004)	(4,383,699)	(4,207,279)
Total nonoperating revenues (expenses) - net	35,757,859	(1,223,414)	(3,458,004)	(4,383,699)	(4,207,279)
INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEMS	103,436,397	(348,353)	(14,650,017)	134,088,730	134,260,624
TRANSFERS IN	57,009,120	46,400,514	8,819,402	27,597,448	131,327,636
TRANSFERS OUT	(21,482,117)	(41,611,962)	(2,210,392)	(23,362,595)	(158,772,208)
SPECIAL ITEMS					
Early retirement program	-	-	-	(40,242,716)	-
Contribution from Puerto Rico Infrastructure Financing Authority	-	84,721,942	154,221,814	-	-
CHANGE IN NET ASSETS	138,963,400	89,162,141	146,180,807	98,080,867	106,816,052
NET ASSETS – Beginning of year	2,421,806,640	2,275,625,833	2,275,625,833	2,177,544,966	2,070,728,914
NET ASSETS – End of year/period	$2,560,770,040	$2,364,787,974	$2,421,806,640	$2,275,625,833	$2,177,544,966

Schedule of Revenues, Expenses and Changes in Net Assets – Government Development Bank Operating Fund

Set forth below is the Schedule of Revenues, Expenses and Changes in Net Assets–Government Development Bank Operating Fund for each of the fiscal years ended June 30, 2009, 2008 and 2007, and for the nine months ended March 31, 2010 and 2009, excluding its subsidiaries. The Schedule of Revenues, Expenses and Changes in Net Assets for the Bank's Operating Fund provides in more detail information with respect to the business-type activities of the Bank as a stand alone entity (excluding its subsidiaries). The information set forth in the table below for fiscal years 2009, 2008 and 2007 is derived from the column titled "GDB Operating Fund" included in the Statement of Revenues, Expenses and Changes in Net Assets – Enterprise Funds set forth in the Bank's fiscal year 2009, 2008 and 2007 audited consolidated financial statements. Information regarding the nine months ended March 31, 2010 and 2009 was derived from the Bank's accounting records.

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	For the nine months ended March 31,		For the year ended June 30,		
	2010	2009	2009	2008	2007
OPERATING REVENUES					
Investment income					
Interest income on federal funds sold	$ 1,304,768	$ 2,452,254	$ 2,902,988	$ 47,676,634	$ 75,433,805
Interest income on deposits placed with banks	899,566	8,823,723	9,284,246	80,310,347	35,803,225
Interest and dividend income on investments and investment contracts	26,672,315	65,950,377	85,829,640	66,781,549	67,093,643
Net increase (decrease) in fair value of investments	11,892,901	(3,447,016)	(938,833)	4,202,069	15,790,246
Total investment income	40,769,550	73,779,338	97,078,041	198,970,599	194,120,919
Interest income on loans receivable					
Public sector	235,315,153	183,701,475	235,481,248	254,192,208	371,604,648
Private sector	1,096	-	-	-	1,786
Total interest income on loans receivables	235,316,249	183,701,475	235,481,248	254,192,208	371,606,434
Total investment income and interest income on loans receivable	276,085,799	257,480,813	332,559,289	453,162,807	565,727,353
Noninterest income					
Fiscal agency fees	6,480,923	3,699,393	10,949,657	20,210,134	8,810,472
Commitment, guarantee and other service fees	4,530,728	2,782,931	3,707,979	4,811,842	3,437,098
Net gain on sale of real estate available for sale			-	4,296,557	-
Other income	524,435	191,740	303,745	6,440,139	2,889,268
Total noninterest income	11,536,086	6,674,064	14,961,381	35,758,672	15,136,838
Total operating revenues	287,621,885	264,154,877	347,520,670	488,921,479	580,864,191
OPERATING EXPENSES					
Provision for loan losses	-	-	-	-	11,842,981
Interest expense:					
Deposits	86,506,945	129,473,883	165,773,611	229,712,412	302,397,197
Securities sold under agreements to repurchase	18,968,019	23,820,525	30,635,161	23,917,723	22,618,003
Commercial paper	18,001	14,990	21,757	10,678,317	20,899,500
Certificates of indebtedness	21,825	211,566	240,556	487,903	1,278,083
Bonds and notes payable	105,771,186	45,308,228	79,528,858	75,839,338	90,981,624
Total interest expense	211,285,976	198,829,192	276,199,943	340,635,693	438,174,407
Noninterest expenses					
Salaries and fringe benefits	16,007,367	18,006,223	24,270,730	25,484,675	26,179,902
Depreciation and amortization	1,252,422	1,323,819	1,801,865	1,579,553	1,549,599
Occupancy and equipment costs	2,387,024	2,934,203	4,074,422	4,153,774	4,087,981
Legal and professional fees	1,504,736	1,820,565	2,559,363	2,952,187	3,354,188
Office and administrative	257,336	288,225	372,036	683,547	615,599
Other	11,039,780	1,614,989	6,055,267	3,546,037	11,689,807
Total noninterest expenses	32,448,665	25,988,024	39,133,683	38,399,773	47,477,076
Total operating expenses	243,734,641	224,817,216	315,333,626	379,035,466	497,494,464
OPERATING INCOME	43,887,244	39,337,661	32,187,044	109,886,013	83,369,727
NONOPERATING EXPENSES - Contributions to Cooperative Development Investment Fund and other	(2,489,947)	(1,223,414)	(3,458,004)	(2,658,483)	(3,207,279)
SPECIAL ITEMS					
Early retirement program	-	-	-	(31,405,694)	-
Contributions from Puerto Rico Infrastructure Financing Authority	-	84,721,942	154,221,814	-	-
TRANSFER OUT	(100,000)	(100,000)	(100,000)	-	-
CHANGE IN NET ASSETS	41,297,297	122,736,189	182,850,854	75,821,836	80,162,448
NET ASSETS – Beginning of year	1,639,863,791	1,457,012,937	1,457,012,937	1,381,191,101	1,301,028,653
NET ASSETS – End of year/period	$1,681,161,088	$1,579,749,126	$1,639,863,791	$1,457,012,937	$1,381,191,101

Capitalization. The following table sets forth the notes, bonds and net assets of the Bank (excluding its subsidiaries) as of March 31, 2010, and as adjusted to reflect the issuance of the Notes and the Series B Notes and the expected redemption of approximately $664,600,000 principal amount of certain other outstanding notes issued under the Indenture.

	March 31, 2010	As Adjusted
	(In thousands)	
Notes and Bonds		
Bonds and notes	$ 3,358,350*	$ 2,693,750*
The Notes and the Series B Notes	-	1,600,000
Total Notes and Bonds	$ 3,358,350	$ 4,293,750
Net Assets		
Invested in capital assets	$ 12,566	$ 12,566
Unrestricted	1,668,595	1,668,595
Total net assets	$ 1,681,161	$ 1,681,161

* Includes unamortized premium of $7,658,977 pertaining to the 2006 Series B Notes and the 2006 Series C (AMT) Notes.

Interest Rate Spread. The following table sets forth, for the nine months ended March 31, 2010 and 2009, and for each of the three fiscal years in the period ended June 30, 2009, the average interest rate earned by the Bank (excluding its subsidiaries) on its interest-earning assets and the average interest rate paid by the Bank (excluding its subsidiaries) for its interest-bearing liabilities and the corresponding spread.

	For the nine months ended March 31,		For the year ended June 30,		
	2010	2009	2009	2008	2007
Average interest rate earned	3.07%	3.69%	3.28%	5.00%	5.83%
Average interest rate paid	2.67	3.10	2.98	4.29	5.06
Spread	0.40%	0.59%	0.30%	0.71%	0.77%

Liquidity and Sources of Funding. As of March 31, 2010, approximately $5.3 billion, or 42%, of the Bank's assets (excluding its subsidiaries) consisted of cash and due from banks, money market instruments and investment securities. At March 31, 2010, $3.447 billion, or 97%, of the investment securities were classified among the three highest rating categories. Approximately $3.8 billion, or 71%, of the investment portfolio matures in 180 days or less. Of the $5.3 billion in the investment portfolio, approximately $1,180 million were pledged to secure borrowings of the Bank.

The following table sets forth a breakdown of the Bank's (excluding its subsidiaries) total funding by source.

	As of March 31,				As of June 30,					
	2010		2009		2009		2008		2007	
	(Amounts in millions)									
Funding Source	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Public Funds:										
Demand Deposits	$3,135.60	28.62	$2,125.90	22.57	$ 3,250.20	28.84	$2,780.60	29.78	$2,073.90	22.72
Certificates of Deposit	3,124.60	28.52	3,918.90	41.61	4,595.90	40.78	4,373.00	46.84	3,228.70	35.37
Commercial Paper	0.00	0.00	0.50	0.00	0.00	0.00	0.50	0.01	575.90	6.31
Private Deposits	211.30	1.93	514.70	5.47	491.80	4.36	538.70	5.77	857.20	9.39
Bonds and Notes	3,358.30	30.65	2,073.50	22.02	2,072.70	18.40	955.80	10.24	1,937.20	21.22
Repurchase Agreements	1,127.20	10.28	784.60	8.33	859.10	7.62	687.20	7.36	455.00	4.99
Total	$10,957.00	100.00	$9,418.10	100.00	$11,269.70	100.00	$9,335.80	100.00	$9,127.90	100.00

Special Capital and Income Contributions. Act No. 82 of June 16, 2002 ("Act No. 82") amended the Bank's Charter to authorize the Bank to transfer annually to the Commonwealth's General Fund, beginning with fiscal year 2001, the greater of up to 10% of its audited net income or $10,000,000. The Bank is not required by Act No. 82 to transfer any funds. The Bank made payments to the General Fund of $11.6 million for fiscal year 2003 and $18.4 million for fiscal year 2004. The Bank has not made any additional payment to the General Fund under Act No. 82 since fiscal year 2004 and does not expect to make a payment during fiscal year 2011.

Investment Portfolio

General. The following tables set forth the Bank's investment portfolio (excluding its subsidiaries) at March 31, 2010 and 2009, and at June 30, 2009, 2008 and 2007, by instrument and maturity. As of March 31, 2010, the expected average life of its investment portfolio was 1.22 years and approximately 82% of the investment portfolio had an average life of less than one year. At June 30, 2009, 2008 and 2007, the Bank's investment portfolio (excluding its subsidiaries) was $6.0 billion, $5.2 billion and $4.0 billion, respectively. At March 31, 2010 and 2009, the Bank's investment portfolio (excluding its subsidiaries) was $5.3 billion and $3.9 billion, respectively.

The following table shows the Bank's investment portfolio (excluding its subsidiaries) by type of instrument:

	As of March 31,				As of June 30,					
	2010		2009		2009		2008		2007	
Instrument	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(amounts in millions)									
United States Government and Sponsored Agencies Securities[1]	$1,508	28.40	$ 815	20.85	$962	16.10	$765	14.67	$754	18.93
Money Market[2]	3,319	62.52	1,645	42.08	4,574	76.56	3,814	73.16	2,766	69.45
Non-Participating Investment Contracts	183	3.45	182	4.66	170	2.85	189	3.63	210	5.27
Other[3]	299	5.63	1,267	32.41	268	4.49	445	8.54	253	6.35
Total	$5,309	100.00	$3,909	100.00	$5,974	100.00	$5,213	100.00	$3,983	100.00

[1] Includes U.S. Treasury Bonds and Notes, U.S. agencies and collateralized obligations.

[2] Includes Federal Funds, certificates of deposit and time deposits.

[3] Includes U.S. municipal notes, asset-backed securities, corporate bonds and bonds of the Commonwealth, its municipalities and instrumentalities.

The following table shows the Bank's investment portfolio (excluding its subsidiaries) by maturity:

	As of March 31,				As of June 30,					
	2010		2009		2009		2008		2007	
Maturity	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
	(amounts in millions)									
Less than one year	$4,349	81.92	$3,133	80.15	$5,072	84.90	$3,925	75.29	$2,975	74.69
More than one but less than 5 years	384	7.23	147	3.76	306	5.12	409	7.85	266	6.68
More than 5 years	576	10.85	629	16.09	596	9.98	879	16.86	742	18.63
Total	$5,309	100.00	$3,909	100.00	$5,974	100.00	$5,213	100.00	$3,983	100.00

Hedging and Derivatives. The Bank's policy does not allow the use of derivatives for trading purposes or for off-balance sheet leveraged transactions. The Bank uses derivatives in its asset and liability management activities, which include hedging activities. The derivatives utilized are limited to interest rate swaps and structured notes.

As of the date of this Official Statement, the Bank (excluding its subsidiaries) does not have any derivatives outstanding.

Loans to the Commonwealth, its Public Corporations and Municipalities

The table below shows, for each of the Bank's public sector borrowers with outstanding principal balance greater than $20 million as of March 31, 2010 (including loans to the Bank's subsidiaries and excluding municipalities), the name of the borrower, the aggregate outstanding principal amount borrowed and the source or sources of repayment:

Name of Borrower	Outstanding Principal Amount (in thousands)	Sources of Repayment
Departments and Agencies		
Agricultural Services Administration	$104,592	Legislative appropriations; Dedicated Sales Tax Fund and Operating revenues
Department of the Treasury	687,835	Legislative appropriations; Dedicated Sales Tax Fund; proceeds of Commonwealth general obligation bonds and proceeds of other bond issues
Corrections and Rehabilitation Department	27,397	Proceeds of Commonwealth general obligation bonds
Department of Agriculture	62,391	Legislative appropriations and proceeds of Commonwealth general obligation bonds
Department of Education	115,010	Legislative appropriations; proceeds of Commonwealth general obligation bonds; and Dedicated Sales Tax Fund
Department of Health	291,905	Legislative appropriations; proceeds of Commonwealth general obligation bonds; Dedicated Sales Tax Fund; and Fondo Especial de la Salud, Act No. 249 of November 17, 2006 (State Insurance Fund – General Fund)
Department of Justice	79,798	Legislative appropriations and proceeds of Commonwealth general obligation bonds
Department of Transportation and Public Works	79,666	Legislative appropriations and proceeds of Commonwealth general obligation bonds
Emergency Fund (OMB)	129,263	Legislative appropriations – General Fund
Housing Department	38,486	Operating revenues
Municipal Revenues Collection Center	182,327	General Fund subsidy to the Municipalities and Operational Fund; Income from Municipalities
Puerto Rico Court Administration	25,360	Operating revenues
Puerto Rico Police Department	54,450	Legislative appropriations – General Fund
Sports and Recreational Department	27,342	Commonwealth general obligation bonds and Dedicated Sales Tax Fund
Public Corporations		
Aqueduct and Sewer Authority	620,071	Proceeds of bond issues and operating revenues
Convention Center District Authority	151,076	Legislative appropriations and proceeds of Commonwealth general obligation bonds
Electric Power Authority	197,675	American Recovery and Reinvestment Act Funds and operating revenues
Highway and Transportation Authority	877,475	Proceeds of bonds issues; American Recovery and Reinvestment Act Funds and operating revenues
Housing Finance Authority	62,785	Proceeds of bonds issues; American Recovery and Reinvestment Act Funds and operating revenues
Industrial Development Company	89,075	Legislative appropriations and Dedicated Sales Tax Fund
Industrial Fund for Agricultural Development	45,221	Operating revenues
Infrastructure Finance Authority	37,141	Operating revenues
Ports Authority	117,167	American Recovery and Reinvestment Act Funds and operating revenues
Port of the Americas Authority	201,779	Legislative appropriations – General Fund
Public Buildings Authority	152,563	Legislative appropriations; Dedicated Sales Tax Fund and operating revenues
Puerto Rico Industrial, Educational, Medical and Environmental Control Facilities Financing Authority	59,000	Operating revenues
Puerto Rico Sales Tax Financing Corporation	172,100	Proceeds of bond issues
Solid Waste Authority	66,827	Legislative appropriations and operating revenues
Special Communities Perpetual Fund Trust	376,095	Legislative appropriations and proceeds of Commonwealth general obligation bonds
Tourism Development Fund	337,114	Operating revenues
University of Puerto Rico	51,239	Proceeds of bond issues and proceeds of Commonwealth general obligation bonds
University of Puerto Rico Medical Services	20,088	Operating revenues

The table below shows the principal amounts owed to the Bank (excluding loans to the Bank's subsidiaries) from public sector loans by source of repayment:

Source of Repayment	Outstanding Principal Amount as of March 31, 2010 (in millions)
Legislative Appropriations	$ 372
Proceeds of Commonwealth General Obligation Bonds	1,339
Proceeds of Bond Issues (other than proceeds of Commonwealth general obligation bonds)	2,303
Operating Revenues of the respective borrowers (including proceeds generated through the sale of assets and/or operations)	1,220
Municipalities	1,392
Other	5
Total	$ 6,631

Act No. 164 of 2001, as amended ("Act No. 164"), prohibits the Bank from making loans to any governmental entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislative Assembly, except for (i) loans up to an aggregate amount of $200,000,000 (this amount is reduced to $100,000,000 after June 30, 2011) as long as, among other things, the Bank obtains the written approval of the Governor and the Director of the Office of Management and Budget ("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.

Loans to Departments and Agencies of the Commonwealth and Other Agencies and Instrumentalities. The Secretary of the Treasury and other agencies and instrumentalities of the Commonwealth may borrow monies from the Bank for capital improvements and operating needs. As of March 31, 2010, the outstanding principal balance of the Bank loans to the Commonwealth was $688 million and other loans to agencies and instrumentalities of the Commonwealth were $1.2 billion, for a total of $1.9 billion.

The following are summary descriptions of some of the departments and agencies of the Commonwealth that have loans outstanding from the Bank and the respective amounts of their outstanding indebtedness.

Agricultural Services Administration. The Agricultural Services Administration is a separate legal entity attached to the Department of Agriculture. The Administration is authorized to provide agricultural services to promote the development of farming and of agriculture in general. As of March 31, 2010, the Administration had approximately $105 million of indebtedness outstanding with the Bank.

Department of Agriculture. The Department of Agriculture is engaged in providing loans to farmers and in building and leasing commercial buildings. As of March 31, 2010, outstanding indebtedness to the Bank was approximately $62 million.

Department of Education. The Department of Education is responsible for the planning, structuring and administration of Puerto Rico's public school system, including its school facilities and curriculums. The Secretary of Education is also responsible for the implementation of fiscal controls on a system-wide and individual school basis, system-wide budget planning, and the evaluation of scholastic performance and achievement. As of March 31, 2010, outstanding indebtedness to the Bank was approximately $115 million.

Department of Health. The Department of Health is in charge of all matters delegated to it by law related to health and public welfare. Among the health programs it administers, together with the Health Insurance Administration, is a comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents. The health insurance system covers the entire island, and approximately 1.5 million persons were covered by the system during fiscal year 2009. Along with other loans to finance operational expenses of the Medical Services Administration, as of March 31, 2010, the Department of Health had approximately $292 million in loans outstanding with the Bank.

Department of the Treasury. The Commonwealth, through the Department of the Treasury, is authorized to borrow funds from the Bank. As of March 31, 2010, the aggregate outstanding principal amount of all the Bank loans made to the Secretary of the Treasury was approximately $688 million. On April 21, 2010, the Bank's Board of Directors approved a line of credit in the amount of $115,000,000 to repay the letter of credit of the Public Improvement Refunding Bonds, Series 2007 A-6 and A-7 due to a mandatory tender in connection with the expiration of a letter of credit. The line will be paid with a refunding or a conversion of the Series 2007 A-6 and A-7 Bonds.

Department of Transportation and Public Works. The Department of Transportation and Public Works is responsible for all public works carried out in Puerto Rico, including all roads and highways, and all public property of the Commonwealth. As of March 31, 2010, outstanding indebtedness to the Bank was approximately $79.7 million.

Emergency Fund. An Emergency Fund was created by Act No. 91 of June 21, 1966, as amended (the "Emergency Fund"), to cover unexpected public needs caused by calamities, such as wars, hurricanes, earthquakes, droughts, floods and plagues, and to protect people's lives and property and the public sector credit. The Emergency Fund is capitalized annually with an amount totaling no less than one percent of the Commonwealth General Fund net revenues of the preceding fiscal year. Act No. 91 was amended in 2003 to set an upper limit to the Emergency Fund of $150 million at the beginning of the fiscal year and was further amended in 2005 to authorize the disbursement of funds from the Emergency Fund to cover certain General Fund expenditures and operational costs of the State Emergency Management Agency. The 2005 amendment also authorizes the Bank to lend to the Commonwealth up to $150 million to replenish the Emergency Fund to provide funding for emergency and disaster needs. As of March 31, 2010, the balance in the Emergency Fund was less than $2.9 million, and the Bank had an outstanding loan to the Emergency Fund of approximately $129.3 million.

Other agencies and instrumentalities of the Commonwealth not described above were also considered in the total of $1.9 billion, and include, but are not limited to the following: Department of Justice, Municipal Revenue Collection Center, Sports and Recreational Department, Puerto Rico Police Department, Puerto Rico Court Administration, Corrections and Rehabilitation Department, Natural and Environmental Resources Department and Housing Department.

Loans to Public Corporations. The Bank lends funds to the public corporations of the Commonwealth for capital improvements and operating needs. The loans to public corporations for capital improvements generally are construction loans and are repaid from the proceeds of future bond issues of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from accreting certificates of deposit held by the Bank, from loans provided by sources other than the Bank, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from the Bank to the public corporations fluctuates annually, depending upon the capital program needs of public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. As of March 31, 2010, the principal amount of loans outstanding to public corporations (including loans to the Bank's subsidiaries) was approximately $3.7 billion.

The following are summary descriptions of some of the public corporations that have loans outstanding from the Bank and the respective amounts of their outstanding indebtedness.

Aqueduct and Sewer Authority. Puerto Rico Aqueduct and Sewer Authority ("PRASA") owns and operates the island's public water supply and sanitary sewer facilities systems (the "Systems"). The Systems provide water and wastewater services to 97% and 55% of the Commonwealth's population, respectively.

PRASA needs to make a substantial investment in infrastructure and a major overhaul of its operations to maintain the viability of the Systems and to finance its expansion for new users. Funds for this investment will be provided through a combination of revenues from PRASA, financing transactions, federal grants and other sources. Debt service on revenue bonds is payable from net revenues of the Systems after payment of current expenses. Due to PRASA's financial difficulties and its inability to access the bond market, the Commonwealth guarantees the principal and interest payments to the bondholders of all outstanding revenue bonds issued by PRASA, including those issued to the United States Department of Agriculture, Rural Development, and loans granted by the Clean Water and Drinking Water State Revolving Funds for the benefit of PRASA. In July 2010, this guaranty was extended through new legislation to include debt obligations issued until 2015.

On March 18, 2008, PRASA issued $159,055,000 of Revenue Refunding Bonds, 2008 Series A, and $125,700,000 of Revenue Refunding Bonds, 2008 Series B, guaranteed by the Commonwealth. Although these bonds were not issued by the Commonwealth, the payment of principal of and interest on said bonds is guaranteed by the Commonwealth. The total debt of PRASA was $3.2 billion as of March 31, 2010, including approximately $620 million of outstanding indebtedness with the Bank.

Beginning in fiscal year 2006, the Government of Puerto Rico's General Fund ceased to provide financial assistance to PRASA, including making payments on PRASA's guaranteed revenue bonds (as of January 1, 2006). As part of its efforts to regain fiscal independence, PRASA implemented substantial increases in water and wastewater service rates in two phases. The first phase took effect on October 10, 2005. The second phase took effect on July 1, 2006. In the event PRASA is unable to make any portion of the future debt service payments on its guaranteed bonds, the Commonwealth would be required to make such payments under its guarantee from the General Fund. PRASA also pays from its net revenues, when available, the debt service on a note it issued, which is held by a trustee under certain Commonwealth Appropriation Bonds (no-commitment debt) issued by the Public Finance Corporation in the principal amount of $352.7 million, which note financed the cost of the north coast super-aqueduct.

Convention Center District Authority. Convention Center District Authority was created to own, develop, finance, plan, design, build, operate, maintain, administrate and promote a new convention center and designated private parcels located within the Convention Center District in San Juan. The convention center opened on November 17, 2005.

The Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA") financed the construction of a multi-purpose coliseum in San Juan, known as the Jose Miguel Agrelot Coliseum, with a line of credit provided by the Bank. The Coliseum was transferred to the Convention Center District Authority along with the associated line of credit. The Convention Center District Authority's debt as of March 31, 2010 was $455.81 million in outstanding bonds issued in March 2006 to finance the Convention Center and payable from a portion of the Hotel Room Tax. There is also a loan in the amount of approximately $151 million from a Bank financing for the Coliseum.

Electric Power Authority. Puerto Rico Electric Power Authority ("PREPA") owns and operates the island's electric system. The capital improvement program for the five-year period ending June 30, 2014 is estimated to cost approximately $1.7 billion and will be financed primarily by borrowed funds, supplemented by internally generated funds. PREPA's bonded debt consists of Power Revenue Bonds, secured by a lien on net revenues of the electric system. As of March 31, 2010, PREPA's total debt was $7.2 billion, including approximately $197.7 million from Bank financings. As a means of reducing its dependency on oil, PREPA has entered into long-term power purchase agreements with the operators of two co-generation plants that use fuels other than oil. Currently, these two co-generation plants provide approximately 33% of the PREPA's energy needs. In May 2010, PREPA completed approximately $2.5 billion of a bond financing program, the proceeds

of which were used to provide funds for capital improvements, refund certain of its obligations, and repay certain lines of credit with the Bank and private financial institutions.

Highways and Transportation Authority. Puerto Rico Highways and Transportation Authority (the "Highways and Transportation Authority") is responsible for highway construction in Puerto Rico. Such construction is financed by debt (interim notes and revenue bonds), revenues of the Highways and Transportation Authority, and federal and Puerto Rico grants. Debt service on the Highways and Transportation Authority's revenue bonds constitutes a first lien on its gross revenues, which consist currently of all the proceeds of the tax on gasoline, one-half of the proceeds of the tax on gas oil and diesel oil, all the proceeds of the excise taxes on crude oil, unfinished oil and derivative products, up to $120 million per fiscal year, highway toll revenues, and the gross receipts of $15.00 per vehicle per year from certain motor vehicle license fees. Such revenues (except for toll revenues) may be applied first to the payment of debt service on general obligation bonds and notes of the Commonwealth and to payments required to be made by the Commonwealth under its guarantees of bonds and notes, to the extent that no other revenues are available for such purpose. The Commonwealth has never applied such revenues for such payment. As of March 31, 2010, the Highways and Transportation Authority's total debt was $7.1 billion, including approximately $877.5 million from Bank financings.

The Highways and Transportation Authority has completed the first phase of a new mass transit system, known as Tren Urbano, to serve a portion of metropolitan San Juan. It was constructed under several design/build contracts and is being privately operated under a five-year contract with an additional five-year option at the Highways and Transportation Authority's election. The cost of the first phase was $2.3 billion, which cost was financed by federal Transit Administration grants, other federal funding sources and the Highways and Transportation Authority's own resources, including revenue bonds. Tren Urbano commenced operations in June 2005.

The Highways and Transportation Authority is a party to a concession agreement under which a private company designed, constructed and currently is operating a toll bridge spanning the San José Lagoon. The toll bridge was financed with special facility revenue bonds of the Highways and Transportation Authority, payable by the private operator of the bridge principally from toll revenues. The concession is for a term of 35 years, subject to earlier termination or extension. The bridge opened for traffic in February 1994. In certain circumstances described in the concession agreement, including where toll revenues are insufficient to generate certain rates of return to the private operator, the private operator may require the Highways and Transportation Authority, among other things, to assume the operator's obligations with respect to the special facility revenue bonds. Some of those circumstances, including low toll revenues, exist at this time, but the Highways and Transportation Authority does not currently anticipate that the operator will exercise its remedy against the Highways and Transportation Authority.

In February 2008, Government Development Bank approved a line of credit for $140 million to finance the Highways and Transportation Authority's Capital Improvement Program, which line had an outstanding balance as of March 31, 2010 of $140 million. In August 2008, GDB approved a line of credit for $147 million to finance the Highways and Transportation Authority's Capital Improvement Program and operational expenses, which line had an outstanding balance as of March 31, 2010 of $122 million. In February 2009, GDB approved a line of credit for $15 million to finance the Highways and Transportation Authority's payroll expenses, which line had an outstanding balance as of March 31, 2010 of $15 million. In May 2009, GDB approved a line of credit for $78 million to provide emergency liquidity to the Highways and Transportation Authority for the payment of amounts due to its suppliers and service providers, which line had an outstanding balance as of March 31, 2010 of $78 million. During June 2010, the Highways and Transportation Authority remarketed its $253,670,000 Puerto Rico Highways Revenue Refunding Bonds, Series M and its $44,275,000 Transportation Revenue Refunding Bonds, Series H, as authorized under Resolution No. 68-18 and Resolution No. 98-06, respectively and certain supplemental resolution adopted on April 2003. These bonds were reoffered at par value.

Industrial Development Company. Puerto Rico Industrial Development Company ("PRIDCO") participates in the government-sponsored economic development program by providing physical facilities, general assistance, and special incentive grants to manufacturers. PRIDCO was merged with the Puerto Rico Economic Development Administration in January 1998. Rentals derived from the leasing of specified facilities of PRIDCO are pledged to the payment of PRIDCO's revenue bonds. As of March 31, 2010, PRIDCO's total debt was $336 million, including approximately $89.1 million from Bank financings.

Infrastructure Financing Authority. Puerto Rico Infrastructure Financing Authority ("PRIFA") was created to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other public corporations, governmental instrumentalities, political subdivisions and municipalities (collectively, "Benefited Entities") authorized to develop infrastructure facilities and to establish alternate means for financing those facilities. PRIFA is authorized to issue bonds and provide loans, grants and other financial assistance for the construction, acquisition, repair, maintenance and reconstruction of infrastructure projects by Benefited Entities. PRIFA oversees the Puerto Rico Infrastructure Fund, which is funded with annual fixed amounts from the first proceeds of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States which are transferred to Puerto Rico pursuant to the United States Internal Revenue Code of 1986, as amended ("U.S. Code"). This amount was $90 million through fiscal year 2009 and then increased to $117 million annually through fiscal year 2052. Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Puerto Rico Treasury. PRIFA is using these amounts to provide financial support for various infrastructure and other projects. As of March 31, 2010, PRIFA's total debt was $1.9 billion, including approximately $37.1 million from a Bank financing.

PRIFA is investing a portion of its resources in new infrastructure projects in connection with the holding of the Central American and Caribbean Games in Mayagüez, Puerto Rico, in 2010. In September 2006, PRIFA issued $469.8 million of bonds to finance these and other infrastructure projects.

Act No. 3, approved by the Legislature of the Commonwealth on January 14, 2009 ("Act 3"), authorized the sale of the securities of the Corpus Account established under Act No. 92 of June 24, 1998, a perpetual account of the Infrastructure Development Fund, which, in turn, is under the control and custody of PRIFA. The Corpus Account was initially funded with $1.2 billion of the proceeds of the sale of the Puerto Rico Telephone Authority and the investment interest earned on such Corpus Account has been used to pay debt service on PRIFA's $1.1 billion Series 2000 A and B Bonds (limited obligations). Under the provisions of Act 3, PRIFA redeemed the Corpus Account securities in January 2009 and used the proceeds of the sale to: (i) make a deposit into an escrow account which is sufficient to retire the Series 2000 A and B Bonds on October 1, 2010 as PRIFA currently intends; (ii) make a deposit to the General Fund to be applied to the Commonwealth's budget deficit in fiscal year 2009; (iii) make a transfer to the Bank as a capital contribution to the Bank; and (iv) make a deposit to the Corpus Account to be invested in a long-term investment agreement with the Bank.

Port of the Americas Authority. The Port of the Americas Authority is responsible for the development and operation of the Port of the Americas (the "Port"), a deep draft port on the south coast of Puerto Rico. In December of 2004, the first phase of the Port was completed at a cost of $40 million. The Port of the Americas Authority is authorized to issue bonds guaranteed by the Commonwealth in a maximum aggregate principal amount of $250 million. The proceeds from these bonds will be used to continue the development of the Port. Currently, the Bank is authorized to purchase bonds of the Port of the Americas Authority in an aggregate principal amount not to exceed $250 million. As of March 31, 2010, the Bank held approximately $201.8 million of the Port of the Americas Authority's outstanding bonds, which are guaranteed by the Commonwealth.

Ports Authority. Puerto Rico Ports Authority (the "Ports Authority") owns and operates the major airport and seaport facilities in Puerto Rico. The Ports Authority derives revenues from a variety of sources, including charges on airplane fuel sales, air terminal space rentals, landing fees, wharfage, dockage and harbor fees, and rentals for the lease of property and seaport equipment. As of March 31, 2010, the Ports Authority had $748 million in debt, including approximately $117 million from Bank financings. On June 15, 2010, the Ports Authority issued its $46,326,069 Revenue Refunding Bonds, Series E to refund, together with other available

moneys, the $55,580,000 outstanding amount of its Revenue Bonds Series D. The Series E Bonds have a final maturity of June 15, 2028 and were purchased by the Bank.

Public Buildings Authority. Public Buildings Authority ("PBA") is authorized to construct, purchase or lease office, school, health, correctional and other facilities for lease to departments, public corporations and instrumentalities of the Commonwealth. Bonds that have been issued by PBA to finance such facilities (through retirement of interim notes or otherwise) are payable from lease payments, which are largely derived from legislative appropriations and are secured by the Commonwealth's guaranty. PBA is authorized by law to have outstanding at any one time up to $4.3 billion of bonds guaranteed by the Commonwealth. As of March 31, 2010, $3.154 billion aggregate principal amount of such bonds were outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds). As of March 31, 2010, PBA's line of credit with the Bank had an outstanding balance of approximately $152.6 million.

Special Communities Perpetual Trust. The Special Communities Perpetual Trust, a public corporation, is an irrevocable and permanent trust. The Trust's principal purpose is to fund development projects which address the infrastructure and housing needs of underprivileged communities. The Bank made a special capital contribution to the Special Communities Perpetual Trust of $500 million and provided the Trust with a $500 million non-revolving line of credit. The amounts transferred by the Bank were deposited in two investment accounts held by the Bank for the benefit of the Special Communities Perpetual Trust, of which $907 million had been disbursed to the Trust as of March 31, 2010. As of March 31, 2010, the Special Communities Perpetual Trust's line of credit with the Bank had an outstanding balance of approximately $376.1 million. The line of credit is payable from legislative appropriations.

University of Puerto Rico. The University of Puerto Rico (the "University"), with approximately 64,511 students in academic year 2008-2009, is by far the largest institution of higher education on the island. Government appropriations are the principal source of University revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, interest income, federal grants and other sources. University capital improvements have been financed mainly by revenue bonds. As of March 31, 2010, the University's total debt was $640.4 million, including approximately $71.3 million from a Bank financing, including loans to the University of Puerto Rico and University's Medical Services.

In 2000, AFICA issued its $86,735,000 Educational Facilities Revenues Bonds, 2000 Series A (University Plaza Project) for the purpose of financing the construction of additional student housing and parking and office space for the University. The project was built, is being operated by Desarrollos Universitarios, Inc., a Puerto Rico not-for-profit corporation, and is leased to the University for a term equal to the term of the bonds with University lease payments being sufficient to pay debt service on said bonds as they become due. These bonds are not included in the University's total debt or outstanding revenue bonds set forth in the prior paragraph.

In June 2007, the Board of Trustees of the University approved Certification No. 60 establishing a new policy and methodology for tuition fees structure. This new structure covers the tuition fees to be charged to new students until academic year 2012-2013. This policy was adopted to pursue continued development and financial stability of the University.

Other public corporations and instrumentalities not described above were also considered in the total of $3.7 billion, and include, but are not limited to the following: Industrial Fund for Agricultural Development, Public Private Partnership Authority, Cancer Center, National Parks Company, Economic Development Bank, Housing Finance Authority, Solid Waste Authority, Tourism Development Fund, AFICA, and Puerto Rico Sales Tax Financing Corporation.

Loans to Municipalities. The Bank also purchases general obligation and other bonds and notes of the municipalities of Puerto Rico, which obligations are issued by said municipalities to finance their public works projects and operational needs. The bonds and notes relating to public works projects are generally sold by the Bank to Puerto Rico Municipal Finance Agency, which issues its bonds to acquire such bonds

and notes. As of March 31, 2010, approximately $1.4 billion aggregate outstanding principal amount of bonds and notes issued by the municipalities were held by the Bank.

Loans to Private Enterprises

The Bank's loans to the private sector (excluding the lending activities of its subsidiaries, Housing Finance Authority and Tourism Development Fund) are primarily for the establishment or expansion of manufacturing entities, the purchase of machinery and equipment, the construction of commercial and industrial buildings, and the construction of hotel and tourist facilities. The Bank also provides working capital loans to the private sector. As of March 31, 2010, the Bank has approximately $449 thousand of outstanding loans to the private sector.

SUMMARY OF THE INDENTURE

The following statements summarize certain provisions of the Indenture. These statements do not purport to be complete and reference is made to the Indenture, copies of which are available for examination at the office of the Trustee. The Notes will be issued pursuant to the Indenture. The Bank may issue additional securities thereunder.

The Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Bank guarantees of obligations of others for borrowed money now or hereafter outstanding.

Events of Default and Remedies

Each of the following is an event of default under the Indenture with respect to the Notes:

(a) failure to pay any installment of interest on any of the Notes when the same becomes due and payable, and continuance of such default for a period of 30 days;

(b) failure to pay the principal of any of the Notes on the date it becomes due and payable, whether at maturity, redemption, acceleration or otherwise;

(c) failure to pay any sinking or purchase fund or analogous obligation when the same becomes due and payable;

(d) default under any indebtedness for borrowed money of the Bank in excess of $10,000,000, if as a result of such default such indebtedness becomes or is declared due and payable and such acceleration shall not have been rescinded or annulled within a period of 30 days after there has been given, by registered or certified mail, to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 25% in principal amount of the outstanding Notes, a written notice specifying such default and requiring it to be remedied and requiring the Bank to cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default;"

(e) failure to comply with any other covenant of the Bank set forth in the Indenture, and continuance of such default for a period of 90 days after a written notice specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default" is given, by registered or certified mail, to the Bank by the Trustee or to the Bank and the Trustee by the holders of at least 25% in principal amount of the outstanding Notes; or

(f) certain events of bankruptcy, liquidation or similar proceedings involving the Bank.

In case an event of default occurs and is continuing with respect to the Notes, the Trustee may, and upon the direction of the holders of not less than 25% in aggregate principal amount of the Notes then outstanding will, by notice in writing to the Bank, declare the principal amount of all the Notes then outstanding (if not then due and payable) due and payable immediately after the date of such notice and upon such declaration the same will become and be due and payable.

At any time after such a declaration of acceleration has been made with respect to the Notes and before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in principal amount of the outstanding Notes, by written notice to the Bank and the Trustee, may rescind and annul such declaration and its consequences if (i) the Bank has paid or deposited with the Trustee a sum sufficient to pay (1) all overdue installments of interest on the Notes, (2) the principal of any Notes which have become due otherwise than by reason of such declaration of acceleration, and interest thereon, (3) interest upon overdue installments of interest at the rate or rates prescribed therefore by the terms of the Notes, to the extent that payment of such interest is lawful, and (4) all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and all other amounts due the Trustee under the Indenture and (ii) all Events of Default with respect to the Notes, other than the nonpayment of the principal of the Notes, which have become due solely by reason of such declaration of acceleration, have been cured or waived.

Any monies collected by the Trustee with respect to the Notes will be applied in the following order, after payment of all amounts due to the Trustee, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or interest, upon presentation of the Notes, and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(a) If the principal amount of all the Notes has not become due and payable or has not been declared due and payable, all such moneys will be applied

- first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments became due and payable, with interest on such installments of interest, to the extent permitted by law, at the rate of such interest from the respective dates upon which such installments became due and payable, and, if the amount available is not sufficient to pay in full any particular installment, together with interest thereon, then to the payment first of the interest on such installment, ratably, according to the amount of such interest due on such date, and then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto;

- second: to the payment to the persons entitled thereto of the unpaid principal of any Notes, which shall have become due and payable in the order of their due dates, with interest on the principal amount of such Notes, at the respective rates specified therein from the respective dates upon which such Notes became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Notes due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal ratably, according to the amount of such principal due on such date, to the persons entitled thereto; and

- third: to the payment of the interest on and the principal of the Notes and to the redemption of Notes all in accordance with the provisions of the Indenture.

(b) If the principal of all the Notes has become due and payable or has been declared due and payable, all such moneys shall be applied to the payment of the principal and interest (including interest on any overdue installment of interest to the extent permitted by law) then due upon such Notes without preference or priority of principal over interest or of interest over principal or of any installment of

interest over any other installment of interest, or of any Note over any other Note, ratably, according to the amounts due respectively for principal and interest to the persons entitled thereto.

(c) Whenever moneys are to be applied by the Trustee as described above, such moneys will be applied by the Trustee at such times, and from time to time, as the Trustee in its sole discretion determines, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future; the setting aside of such moneys in trust for the proper purpose will constitute proper application by the Trustee; and the Trustee will incur no liability whatsoever to the Bank, to any holder of the Notes, or to any other person for any delay in applying any such moneys, so long as the Trustee acts diligently, having due regard to the circumstances, and ultimately applies the same in accordance with such provisions of the Indenture. Whenever the Trustee exercises such discretion in applying such moneys, it will fix the date (which will be an Interest Payment Date unless the Trustee deems another date more suitable) on which such application is to be made and on such date interest on the amounts of principal to be paid on such date will cease to accrue. The Trustee shall give such notice as it may deem appropriate of the fixing of any such date, and will not be required to make payment to the holder of any Note, until such Note shall be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

The holders of a majority in aggregate principal amount of the Notes then outstanding may, on behalf of all such holders, waive any past default and its consequences, except a default not theretofore cured with respect to the payment of principal amount or interest on any Note, and certain other matters which require the consent of all the holders of the Notes. See "Amendments and Supplements to the Indenture" below.

The Trustee may require indemnification before taking any action under the Indenture other than (i) accelerating the principal amount of the Notes issued thereunder, when required by the Indenture, or (ii) taking certain ministerial actions.

The holders of a majority of the aggregate principal amount of Notes then outstanding will have, subject to certain limitations, the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee with respect to the Notes. No holder of the Notes will have any right to institute any suit, action or proceeding in equity or at law on any Note, or for the execution of any trust under the Indenture, or for any other remedy under the Indenture unless:

(i) such holder has previously given to the Trustee notice of the event of default on account of which such suit, action or proceeding is to be instituted;

(ii) the holders of not less than 25% of the aggregate principal amount of Notes then outstanding have requested of the Trustee in writing, after the right to exercise such powers or right of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity, either to proceed to exercise such powers or to institute such action, suit or proceeding in its name;

(iii) the Trustee has been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred;

(iv) the Trustee has refused or neglected to comply with such request within 60 days after its receipt of notice from the required percentage of holders of the Notes; and

(v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy thereunder. No one or more holders of the Notes, will have any right, in any manner, to affect, disturb or prejudice any rights under the Indenture, or to obtain or to seek to obtain priority or preference

over any other holders of the Notes, or to enforce any right thereunder, except in the manner therein provided.

All suits, actions and proceedings at law or in equity must be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all holders of the Notes. Any individual right of action or other right given to one or more holders of the Notes by law is restricted by the Indenture to the rights and remedies therein provided. Nothing in the Indenture, however, shall impair the right of any holder of the Notes to enforce the payment of the principal amount of and interest on any Note after its due date.

Amendments or Supplements to the Indenture

The Indenture may be amended or supplemented at any time without the consent or approval of any of the Noteholders:

(a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision which may be inconsistent with any other provision, or to make any other changes with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture;

(b) to grant to or confer upon the Trustee for the benefit of the Noteholders or the holders of any other series of securities any additional rights, remedies, powers, benefits, authority or security that may lawfully be so assigned or conferred;

(c) to add to the covenants of the Bank, or to surrender any right or power herein conferred upon the Bank, for the benefit of the Noteholders or the holders of any other series of securities;

(d) to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Notes or any other series of securities for sale under the securities laws of any of the states of the United States, and to add such other terms, conditions and provisions as may be required by said Trust Indenture Act or similar federal statute;

(e) to provide for the issuance of additional securities as described under "Additional Debt Securities" below;

(f) to evidence and provide for the acceptance of appointment by another corporation as a successor trustee with respect to one or more series of securities and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one trustee;

(g) to comply with any requirements of the nationally recognized rating agency designated by the Bank to rate the Notes or any other series of securities that is necessary in order for the Notes or such other securities to maintain the rating initially assigned or then applicable to them; or

(h) to add any additional events of default in respect of the Notes or any other series of securities.

Other than for purposes of the above paragraph, the Indenture may be amended or supplemented with the consent of the holders of a majority in principal amount of the securities of each series affected by such amendment or supplement at the time outstanding under the Indenture; provided, however, that without the consent of every securityholder affected by such amendment or supplement, no such amendment or supplement may be adopted with respect to (a) a change in the maturity of the principal amount of or the interest, or any premium, on any security, or (b) a reduction in the principal amount of any security or the redemption premium, if any, or the rate of interest thereon, or (c) a reduction in the aggregate principal

amount of the securities required for consent to such supplement or amendment or any waiver thereunder. The Trustee is not obligated to execute any proposed supplement or amendment if its rights, obligations and interests would be affected thereby.

Defeasance

Any outstanding Note will be deemed to have been paid within the meaning of the Indenture when the entire principal of and interest on such Note has been paid or duly provided for and the conditions set forth below have been satisfied or when, among other things,

(a) the Note has been duly called for redemption or irrevocable instructions to call such Note for redemption have been given to the Trustee,

(b) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Obligations, which do not contain provisions permitting redemption at the option of the issuer, the principal of and interest on which when due, and without reinvestment, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor, will be sufficient, to pay when due the principal of and interest due and to become due on such Note on or prior to the redemption date thereof, and

(c) in the event such Note does not mature and is not to be redeemed within the next succeeding 60 days, the Bank has given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the holder of such Note stating that the deposit of moneys or Government Obligations described above has been made with the Trustee and that such Note is deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of principal of and interest on such Note.

Additional Debt Securities

In addition to the Notes being offered hereunder, the Bank may authorize from time to time the issuance of additional debt securities under the Indenture or otherwise incur additional indebtedness. Such additional debt securities or other indebtedness may rank equally with the Notes offered hereunder and may have the benefit of any collateral specified in the resolution or supplement to the Indenture or other instrument pursuant to which such additional debt securities are issued.

Certain Rights of the Trustee

In the Indenture, the Bank has agreed:

(i) to pay to the Trustee from time to time reasonable compensation for all services rendered by it,

(ii) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of the Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(iii) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the Indenture, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties.

As security for the performance of the obligations of the Bank described in the preceding paragraph, the Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the

Trustee as such, except funds held in trust for the payment of principal of (and premium, if any) or interest on particular Notes.

In the performance of its duties:

(i) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, opinion, direction, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(ii) the Trustee may consult with counsel and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(iii) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Noteholders unless such Noteholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(iv) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, opinion, report, notice, request, direction, consent or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the relevant books, records and premises of the Bank personally or by agent or attorney; and

(v) the Trustee may execute any of its trusts or powers either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it.

TAX MATTERS

The following is a summary of the opinions of O'Neill & Borges, Bond Counsel, regarding certain Puerto Rico and United States federal tax consequences of the ownership of the Notes by U.S. Holders (as defined below) and Puerto Rico U.S. Holders (as defined below). See also *Appendix II* – Form of Opinion of Bond Counsel.

This section does not purport to cover all of the Puerto Rico and United States federal tax consequences arising from the purchase, ownership and disposition of the Notes. The following is based upon laws, regulations, judicial decisions and administrative pronouncements now in effect and is subject to change, and any change may apply retroactively and affect the accuracy of the opinions, statements and conclusions set forth in this discussion. Persons considering the purchase of the Notes should consult their independent tax advisors as to the application to their particular situations of the tax discussion described below, as well as the effect of any foreign, state or other laws.

An opinion of counsel represents only such counsel's best legal judgment and is not binding on the Puerto Rico Treasury Department, any municipality or agency of Puerto Rico, the United States Internal Revenue Service or the courts. Accordingly, there can be no assurance that the opinions set forth herein, if challenged, would be sustained.

Puerto Rico Tax Considerations

In the opinion of O'Neill & Borges, Bond Counsel, based on the laws of Puerto Rico now in force:

1. Interest on the Notes is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code");

2. The Notes are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended;

3. The transfer of the Notes by (i) gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico;

4. Gain recognized from the sale or exchange of a Note will be subject to income tax under the P.R. Code to taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of Puerto Rico;

5. The Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1112(f)(2)(A) of the P.R. Code applicable to certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1102 of the P.R. Code available to corporations and partnerships that have a certain percentage of their net income invested in obligations of instrumentalities of Puerto Rico and certain other investments; and

6. Interest on the Notes constitutes "industrial development income" under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Tax Incentives Act of 1987, the Puerto Rico Tax Incentives Act of 1998, and the Economic Incentives for the Development of Puerto Rico Act, as amended (collectively, the "Acts"), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the Notes with "eligible funds," as such term is defined in the Acts.

The P.R. Code does not provide rules with respect to the treatment of the excess, if any, of the amount due at maturity of the Notes over its initial offering price (the "Accretion Amount"). Under the current administrative practice followed by the Puerto Rico Treasury Department, the Accretion Amount is treated as interest.

Prospective owners of the Notes, including but not limited to financial institutions, should be aware that ownership of the Notes may result in having a portion of their interest and other expenses attributable to interest on the Notes disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.

United States Federal Tax Considerations

U.S. Internal Revenue Service Circular No. 230 Notice: This tax discussion is not intended or written to be used, and cannot be used by any taxpayer, for purposes of avoiding penalties that may be imposed on the taxpayer by the Internal Revenue Service. This tax discussion was written in connection with the promotion or marketing of the Notes. Each prospective purchaser of the Notes should seek tax advice from an independent tax advisor based on its particular circumstances.

United States Taxation - In General

The following summary of certain material federal income tax consequences of the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates) or possible differing interpretations. It deals only with Notes held as capital assets within the meaning of Section 1221 of the U.S. Code and does not address all of the tax consequences relevant to investors that are subject to special treatment under the United States federal income tax laws, such as financial institutions, life insurance companies, retirement plans, regulated investment companies, persons who hold transition bonds as part of a "straddle," a "hedge" or a "conversion transaction," persons that have a functional currency other than the U.S. dollar, investors in pass-through entities and tax-exempt organizations. It also does not deal with holders other than investors who purchase Notes in the initial offering at the first price at which a substantial amount of such substantially identical Notes are sold to the general public (except where otherwise specifically noted).

This summary does not address the consequences to holders of the Notes under state, local or foreign tax laws nor does it address all tax consequences that may be applicable to a U.S. Holder that is the beneficial owner of the Notes. Persons considering the purchase of the Notes should consult their tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction.

As used herein, and except as provided below, the term "U.S. Holder" means a beneficial owner of a Note that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. Moreover, as used herein, the term "U.S. Holder" includes any holder of a Note whose income or gain in respect of its investment in a Note is effectively connected or deemed effectively connected, with a U.S. trade or business. The term U.S. Holder does not include a Puerto Rico U.S. Holder or a Puerto Rico Corporation (defined below). As used herein, the term "Puerto Rico U.S. Holder" means a beneficial owner of a Note that is an individual and a bona fide resident of Puerto Rico, within the meaning of Section 937 of the U.S. Code, and the regulations thereunder, during the entire taxable year, including the taxable year in which the Notes are acquired. As used herein, the term "Puerto Rico Corporation" means a beneficial owner of a Note that is a corporation organized under the laws of Puerto Rico.

Puerto Rico U.S. Holder and Puerto Rico Corporation

Interest on the Notes. Interest on the Notes received by, or "original issue discount" (within the meaning of the U.S. Code) accrued to, an individual who is a Puerto Rico U.S. Holder during the entire taxable year in which such interest is received or "original issue discount" is accrued will constitute gross income from sources within Puerto Rico and, therefore, is excludable from gross income for purposes of the U.S. Code pursuant to section 933(1) thereof. In addition, for U.S. federal income tax purposes, no deduction or credit

will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico U.S. Holder's gross income.

Interest on the Notes received by, or "original issue discount" (within the meaning of the U.S. Code) accrued to, a Puerto Rico Corporation, is not subject to income taxation under the U.S. Code provided such interest or "original issue discount" is not effectively connected income, or treated as effectively connected income, attributable to the conduct of a trade or business within the United States by such corporation.

Sale or Retirement of the Notes. In general, pursuant to the provisions of Section 1.937-2 of the Regulations issued under the U.S. Code, the source of the income from the disposition of personal property by a Puerto Rico U.S. Holder will be determined under the rules of Section 865 of the U.S. Code. Accordingly, the gain on the sale or exchange of the Notes (excluding "original issue discount" under the U.S. Code as of the date of the sale or exchange), recognized by a Puerto Rico U.S. Holder during the entire year in which the source of the gain must be determined will constitute Puerto Rico source income and, therefore, qualify for the aforementioned income exclusion under Section 933(1) of the U.S. Code, provided, that (i) the Notes do not constitute inventory in the hands of such individual, (ii) if the Notes were owned before the individual became a bona fide resident of Puerto Rico, that for any of the 10 years preceding the taxable year for which the source of the gain must be determined, the individual was not a resident of the United States (other than a bona fide resident of Puerto Rico) and (iii) the gain is not attributable to an office or fixed place of business of such individual in the United States.

A Puerto Rico Corporation generally will not be subject to income or withholding tax under the U.S. Code on a gain realized on the sale or exchange of the Notes, provided such gain is not effectively connected, or treated as effectively connected, with the conduct by the Puerto Rico Corporation of a trade or business in the United States.

Estate and Gift Taxes. The transfer of the Notes by death or gift will not be subject to estate or gift tax under the U.S. Code in the case of decedents or donors who, at the time of death or gift, are (i) residents of Puerto Rico and (ii) (x) United States citizens who acquired such citizenship solely by reason of birth or residence in Puerto Rico or (y) not United States citizens.

U.S. Holder

Payments of Interest. Interest on a Note generally will be taxable to a U.S. Holder as ordinary interest income at the time such interest is accrued or received (in accordance with the U.S. Holder's regular method of tax accounting).

Original Issue Discount. The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of Notes issued with original issue discount ("OID Notes"), if any. The following summary is based upon final Treasury regulations (the "OID Regulations") released by the IRS under the original issue discount provisions of the U.S. Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a debt instrument, such as a Note, over its issue price, if such excess equals or exceeds a *de minimis* amount (generally ¼ of 1% of the debt instrument's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a debt instrument providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such debt instrument). The issue price of each maturity of substantially identical Notes equals the first price at which a substantial amount of such maturity of Notes has been sold (without taking into account sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Note is the sum of all payments provided by the Notes other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally

payable in cash or property (other than debt instruments of the issuer), or that will be constructively received under Section 451 of the U.S. Code, at least annually at a single fixed rate.

Payments of qualified stated interest on a Note are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting). A U.S. Holder of an OID Note must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of an OID Note is the sum of the daily portions of original issue discount with respect to such OID Note for each day during the taxable year (or portion of the taxable year) in which such U.S. Holder held such OID Note. The "daily portion" of original issue discount on any OID Note is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the OID Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the OID Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of an OID Note at the beginning of any accrual period is the sum of the issue price of the OID Note plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the OID Note that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

A U.S. Holder who purchases an OID Note for an amount that is greater than its adjusted issue price as of the purchase date and less than or equal to the sum of all amounts payable on the OID Note after the purchase date, other than payments of qualified stated interest, will be considered to have purchased the OID Note at an "acquisition premium." Under the acquisition premium rules, the amount of original issue discount which such U.S. Holder must include in its gross income with respect to such OID Note for any taxable year (or portion thereof in which the U.S. Holder holds the OID Note) will be reduced (but not below zero) by the portion of the acquisition premium properly allocable to the period pursuant to a specified fraction.

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions. The election generally applies to the OID Note with respect to which it is made and may not be revoked without the consent of the United States Internal Revenue Service ("IRS").

The Notes may be redeemable at the option of the Bank prior to their stated maturity. The Notes containing such features may be subject to rules that differ from the general rules discussed above. Investors intending to purchase Notes with such features should consult their own tax advisors, since the original issue discount consequences will depend, in part, on the particular terms and features of the purchased Notes.

Market Discount. If a U.S. Holder purchases a Note for an amount that is less than its issue price or for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such Note at a "market discount," unless the amount of such market discount is less than the specified *de minimis* amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of, a Note as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in gross income and is treated as having accrued on such Note at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the Note, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a Note with market discount until the maturity of such Note or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the Notes and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary income for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Premium. If a U.S. Holder purchases a Note for an amount that is greater than the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the Note with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the Note and may offset interest otherwise required to be included in respect of the Note during any taxable year by the amortized amount of such excess for the taxable year. However, if the Note may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the Note. Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Disposition of a Note. Except as discussed above, upon the sale, exchange or retirement of a Note a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note will generally equal such U.S. Holder's initial investment in the Note. Such gain or loss generally will be long-term capital gain or loss if the Note has been held by the U.S. Holder at the time of disposition for more than one year.

Defeasance. U.S. Holders of the Notes should be aware that, for federal income tax purposes, the deposit of moneys or securities in escrow in such amount and manner as to cause the Notes to be deemed to be no longer outstanding under the Indenture of the Notes (a "defeasance"), could result in a deemed exchange under Section 1001 of the U.S. Code and a recognition by such owner of taxable income or loss, without any corresponding receipt of moneys. In addition, for federal income tax purposes, the character and timing of receipt of payments on the Notes subsequent to any such defeasance could also be affected. U.S. Holders of the Notes are advised to consult with their own tax advisors regarding the consequences of a defeasance for federal income tax purposes and under the tax laws of the states, including their political subdivisions, and the District of Columbia.

The opinion of Bond Counsel regarding the tax consequences under Puerto Rico law and the U.S. Code arising from ownership of, receipt or accrual of interest on, or disposition of the Note is limited to the above. Bond Counsel does not express any opinion as to the laws of jurisdictions other than Puerto Rico and the United States federal laws applicable to Puerto Rico, or as to any other laws of any states or other jurisdictions or compliance therewith by any party, and the purchaser of the Notes must consult his, her or its

tax advisor as to such tax consequences. It also does not express an opinion as to the tax consequences arising from the beneficial ownership of a Note by anyone other than a U.S. Holder, a Puerto Rico U.S. Holder, or a Puerto Rico Corporation.

Backup Withholding

Backup withholding of United States federal income tax may apply to payments made in respect of the Notes to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Notes to a Puerto Rico U.S. Holder must be reported to the IRS, unless the Puerto Rico U.S. Holder is an exempt recipient or establishes an exemption. A Puerto Rico U.S. Holder can obtain a complete exemption from the backup withholding tax by filing Form W-9 (Payer's Request for Taxpayer Identification Number and Certification).

In addition, upon the sale of a Note to (or through) a broker, the broker must report the sale and withhold on the entire purchase price, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller certifies that such seller is a non-U.S. Holder (and certain other conditions are met). Certification of the registered owner's non-U.S. status would be made normally on an IRS Form W-8BEN under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner of the Notes would be allowed as a refund or a credit against such beneficial owner's United States federal income tax provided the required information is furnished to the IRS.

Prospective owners of the Notes should also be aware that the U.S. Code provides special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporations," "personal holding companies," or "passive foreign investment companies," as such terms are defined by the U.S. Code.

No Opinion as to Exclusion under Section 103(a) of the U.S. Code

The Bank has determined, based on the advice of counsel, that interest on the Notes is not excludable from gross income for federal income tax purposes under Section 103(a) of the U.S. Code. As a result, the Notes are not being sold in the United States tax-exempt municipal market. Bond Counsel is not opining as to the status of the Notes for purposes of Section 103(a) of the U.S. Code.

ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan, as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including an entity such as a collective investment fund and separate accounts whose underlying assets include the assets of such plans, subject to ERISA (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the Notes. Accordingly, among other factors, the fiduciary should consider (i) whether the investment satisfies the prudence requirements of Section 404(a)(1)(B) of ERISA, (ii) whether the investment satisfies the diversification requirements of Section 404(a)(1)(C) of ERISA, and (iii) whether the investment is in accordance with the documents and instruments governing the Plan as required by Section 404(a)(1)(D) of ERISA.

In addition, certain parties to the offering may be considered a party in interest within the meaning of ERISA, or a disqualified person within the meaning of the U.S. Code, with respect to many Plans, as well as many individual retirement accounts and plans established by self-employed individuals or Keogh plans (also "Plans"). Prohibited transactions within the meaning of ERISA or the U.S. Code would likely arise, for example, if the Notes are acquired by or with the assets of a Plan with respect to which one of the

underwriters or certain of its affiliates is a party in interest, unless the Notes are acquired pursuant to an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the U.S. Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions ("PTCEs") issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding or disposition of the Notes. Those exemptions include PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under new Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the U.S. Code for certain arm's-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the "Service Provider Exemption").

Because one or more of the underwriters may be considered a party in interest with respect to many Plans, the Notes may not be purchased by any Plan, any entity whose underlying assets include plan assets by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing plan assets of any Plan, unless such purchase is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the Notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase of the Notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such Notes on behalf of or with plan assets of any Plan or with any assets of a governmental, church or foreign plan that is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the U.S. Code or (b) its purchase is eligible for exemptive relief or such purchase is otherwise not prohibited by ERISA or Section 4975 of the U.S. Code (or in the case of a governmental, church or foreign plan, any substantially similar federal, state, local or foreign law).

Under ERISA, assets of a Plan may include assets held in the general account of an insurance company which has issued an insurance policy to such plan or assets of an entity in which the Plan has invested. Accordingly, insurance company general accounts that include assets of a Plan must ensure that one of the foregoing exemptions is available. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the Notes on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or the Service Provider Exemption.

Purchasers of the Notes have exclusive responsibility for ensuring that their purchase of the Notes does not violate the prohibited transaction rules of ERISA or the U.S. Code or any similar regulations applicable to governmental, church or foreign plans, as described above.

RATING

The Notes have received a rating of "BBB" by S&P. A rating reflects only the view of the rating agency and an explanation of the significance of the rating may be obtained from the rating agency. The rating agency was provided with materials relating to the Bank and the Notes and other relevant information, and no application has been made to any other rating agency for the purpose of obtaining a rating on the Notes.

There is no assurance that such rating will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by the rating agency if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market prices of the Notes.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Notes from the Bank at an aggregate discount of $15,574,316.47 from the initial offering prices of the Notes set forth or derived from information set forth on the inside cover of this Official Statement. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the Notes, if any such Notes are purchased. The Underwriters may offer to sell the Notes to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed, from time to time, by the Underwriters.

Santander Securities Corporation ("SSC") and Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill") have entered into an agreement pursuant to which they will provide services and advice to each other related to the structuring and execution of certain municipal finance transactions for the Commonwealth's governmental entities in the global capital markets and in the United States market and in the Puerto Rico market if issued in connection with such global or U.S. issuances. SSC and Merrill will be entitled to receive a portion of each other's revenues from the underwriting of the Notes as consideration for their professional services.

LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the Notes are subject to the approval of O'Neill & Borges, Bond Counsel. The issuance of the Notes is conditioned upon the delivery on their date of issuance of the approving opinion of Bond Counsel substantially in the form attached to this Official Statement as *Appendix II*. Certain legal matters will be passed for the Underwriters by their counsel, Fiddler, González & Rodriguez, PSC, San Juan, Puerto Rico.

LEGAL INVESTMENT

The Notes will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico, as required by law. The Notes will be eligible investments for insurance companies qualified to do business in the Commonwealth, international banking entities licensed under Act 52 of August 11, 1989, as amended, and savings and credit cooperatives organized under Act 255 of October 28, 2002, as amended.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"), the Bank has agreed to the following:

1. The Bank has agreed to file, within 305 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2010, with the MSRB through EMMA, core financial information and operating data for such fiscal year, including (i) its audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) and information as to revenues, expenditures, financial operations and indebtedness generally found or incorporated by reference in this Official Statement; and

2. The Bank has agreed to file, in a timely manner, with EMMA, notice of any failure of the Bank to comply with paragraph 1 above and of the occurrence of any of the following events with respect to the Notes, if, in the judgment of the Bank or its agent, such event is material:

   a. principal and interest payment delinquencies;
   b. non-payment related defaults;
   c. unscheduled draws on debt service reserves reflecting financial difficulties;

d. unscheduled draws on credit enhancements reflecting financial difficulties;
e. substitution of credit or liquidity facility providers, or their failure to perform;
f. adverse opinions or events affecting the tax-exempt status of the Notes;
g. modifications to rights of the holders (including Beneficial Owners) of the Notes;
h. bond calls;
i. defeasances;
j. release, substitution, or sale of property securing repayment of the Notes; and
k. rating changes.

Events (c), (d) and (e) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, events (c), (d) and (e) may not be applicable, since the terms of the Notes do not provide for "debt service reserves" or "liquidity facility providers." In addition, with respect to the following events:

Events (d) and (e). The Bank does not undertake to provide any notice with respect to credit enhancement added after the initial offering of the Notes, unless the Bank applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the Notes, see *Tax Matters.*

Event (h). The Bank does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement under *"The Notes* — Redemption," the only open issue is which Notes will be redeemed in the case of a partial redemption, notice of redemption is given to the Noteholders as required under the terms of the Notes, and public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of Notes.

All continuing disclosure filings must be made with the MSRB through EMMA.

The Bank may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Bank, such other events are material with respect to the Notes, but the Bank does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Bank acknowledges that its undertaking pursuant to the Rule described above is intended to be for the benefit of the Beneficial Owners of the Notes, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Bank's obligations thereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Bank written notice of any request to cure such breach, and the Bank shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, Puerto Rico for the equal benefit of all Beneficial Owners of the outstanding Notes benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of any of the Covenants at issue.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Bank, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Notes, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by persons unaffiliated with the Bank; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Bank elects that the Covenants shall be deemed amended accordingly.

The Bank has further agreed that the annual financial information containing any amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above.

The Covenants have been made in order to assist the Underwriters in complying with the Rule.

LITIGATION

The Bank is involved in various lawsuits arising in the normal course of its business. With respect to pending and threatened litigation, as of March 31, 2010 the Bank has included in its financial statements accrued liabilities amounting to approximately $658,000 for awarded and anticipated unfavorable judgments. This amount represents a probable liability with a fixed or expected due date, which would require future available financial resources for its payment. In the opinion of the Bank and its General Counsel, the ultimate liability in excess of amounts provided in the financial statements, if any, would not be significant.

MISCELLANEOUS

The foregoing summaries of or references to the Charter, Notes, the Indenture and the other documents and agreements referred to herein and the summaries of or references to the various acts contained in the Commonwealth Report, are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions.

The information set forth in this Official Statement and incorporated herein by reference, except for information pertaining to DTC was supplied by certain officials of the Bank, the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Bank, the Commonwealth or certain of its agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC.

This Official Statement will be filed with the MSRB through EMMA.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

By: /s/ Fernando L. Batlle
Name: Fernando L. Batlle
Title: Executive Vice President

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Government Development Bank for Puerto Rico

(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2009,
and Independent Auditors' Report

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

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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, 2009, 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, 2009, 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 $5,063,010,000 or 36.1% of the Bank's total assets as of June 30, 2009. 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 seven 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 3 to 16 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.

Deloitte & Touche LLP

November 27, 2009

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affixed to original.

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, 2009. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Total assets at June 30, 2009 amounted to $14,039 million an increase of $1,723 million or 14% from the $12,316 million at June 30, 2008. Liabilities also increased to $11,588 million from $9,957 million or 16%.

- Net assets grew to $2,451 million from $2,359 million at June 30, 2008. The change in net assets of $92 million in fiscal year 2009 is composed of $146.2 million from business-type activities, and an excess of expenses and transfers over revenues of $54.2 million from governmental activities.

- The Legislature of the Commonwealth of Puerto Rico authorized a contribution to the Bank from the Puerto Rico Infrastructure Financing Authority (PRIFA). The contribution amounted to $154.2 million.

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, 2009 amounted to $14,039 million and $11,588 million, respectively, for net assets of $2,451 million or 17.5% of total assets. Within the assets, it is the loan portfolio which shows the most significant growth of $1,222 million or 22% over fiscal year 2008 balance of $5,463 million. The proportion of loans to total assets increased to 47.6% from 44.4%. The loan portfolio was nevertheless quite active; over $2.4 billion were collected from loans to the public sector which represents 49% of its balance at June 30, 2008.

Investments of $4,374 million at June 30, 2009 show an immaterial decrease of less than 1% when compared to prior year's ending balance of $4,406 million. However, since the base of total assets grew by 14%, its percentage of total assets decreased from 35.8% to 31.2%.

The Bank issued several note series during fiscal year 2009 for a net increase of $925.6 million in this line item. These obligations partially funded the loan portfolio increase. Also, the Bank increased its funding from securities sold under agreements to repurchase by 25% over 2008 balance.

From the $2,451 million in net assets, $2,168 million or 88.5% are unrestricted, $177.8 million or 7.2 % are restricted for use in affordable housing programs, and the remaining $105 million or 4.3% are invested in capital assets, restricted for debt service, and 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 $133.8 million at June 30, 2009, before $85.2 million in net balances due to business-type activities. Total liabilities amounted to $19.7 million, for net assets of $28.9 million or 59.4% of total assets, net of balances due to business-type activities. Net assets have been broken down into the amounts restricted for debt service, $29.1 million, for affordable housing programs, $4.5 million, and the unrestricted deficit of $4.7 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 all its obligations.

Condensed financial information on assets, liabilities, and net assets of governmental activities as of June 30, 2009 and 2008 is shown below (amounts in thousands):

	June 30,			
	2009	2008	Amount	Percent
Assets:				
Restricted:				
Cash and due from banks, and deposits placed with banks	$ 28,720	$ 54,896	$ (26,176)	(47.7)%
Due from federal government		20,937	(20,937)	(100.0)%
Investments and investment contracts	99,258	118,011	(18,753)	(15.9)%
Loans receivable — net	2,062	2,520	(458)	(18.2)%
Other assets	3,763	4,045	(282)	(7.0)%
Total assets before internal balances	133,803	200,409	(66,606)	(33.2)%
Internal balances	(85,221)	(92,028)	6,807	(7.4)%
Total assets	48,582	108,381	(59,799)	(55.2)%
Liabilities:				
Accounts payable and accrued liabilities	14,896	20,322	(5,426)	(26.7)%
Notes payable:				
Due in one year		151	(151)	(100.0)%
Due in more than one year	4,811	4,811	0	0.0%
Total liabilities	19,707	25,284	(5,577)	(22.1)%
Net assets:				
Restricted for debt service	29,079	30,523	(1,444)	(4.7)%
Restricted for affordable housing programs	4,534	84,905	(80,371)	(94.7)%
Unrestricted deficit	(4,738)	(32,331)	27,593	(85.3)%
Total net assets	$ 28,875	$ 83,097	$ (54,222)	(65.3)%

Investments and investment contracts amounted to $99.3 million and account for the majority of assets held by governmental activities. These investments, together with cash and due from banks, and deposits placed with banks of $28.7 million are held to provide the funds necessary for the execution of the various affordable housing programs managed by the Puerto Rico Housing Finance Authority (the "Housing Finance Authority") and for debt service. Accrued liabilities mainly consist 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, 2009 and 2008, is shown below (in thousands):

	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			83,097
Net assets — end of year			$ 28,875

	Year ended June 30, 2008		
	General Government	Housing Assistance Programs	Total
Expenses	$ 5,165	$ 144,438	$ 149,603
Program revenues:			
Charges for services — financing and investment		10,228	10,228
Operating grants and contributions	-	133,012	133,012
Net expenses	$ (5,165)	$ (1,198)	(6,363)
Transfers — net			(4,235)
Change in net assets			(10,598)
Net assets — beginning of year			93,695
Net assets — end of year			$ 83,097

4. GOVERNMENTAL FUND RESULTS

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

New Secure Housing Program — This fund is used to account for the resources available under the New Secure Housing Program to provide housing assistance benefits for specific participants that were affected by Hurricane Georges in 1998 or that live in hazard prone areas. This fund receives resources from the federal government, under a Federal Emergency Management Agency (FEMA) program, intended to provide financial resources to eligible participants for the relocation or reconstruction of their homes. The Housing Finance Authority restructured on a long-term basis its existing $50 million revolving credit facility with the Bank to complete the New Secure Housing Program by December 2009. The obligation will require debt service payments of approximately $67.6 million over a period of 20 years. The operating and administrative fund of the Housing Finance Authority will assume the debt service payments until Commonwealth appropriations are available.

No revenues from the federal government or from Commonwealth appropriations were recognized during 2009 or 2008 since FEMA discontinued reimbursing the Authority's project costs under the program until certain conditions are met. Construction costs paid during the years ended June 30, 2009 and 2008, amounted to $5.7 million and $6.1 million, respectively, which are presented as housing assistance program expenditures in the accompanying statement of revenues, expenditures, and changes in fund balance — 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 certain markets. The expenditures of the HUD Programs fund increased $3 million from $116 million in 2008 to $119 million in 2009. The expenditures in the housing vouchers program of the HUD Programs fund increased $2 million because 115 additional vouchers were awarded when compared to the previous year.

The Key for Your Home Program — This fund accounts for the subsidy to low and moderate-income families with costs directly related to the purchase and rehabilitation of housing units. Total revenues during fiscal years 2009 and 2008, were $3 million and $4 million, respectively. Revenues arose principally from penalty reimbursements received from early prepayment of mortgages and interest income on deposits placed with banks. The fund had expenditures of $21 million and $13 million in 2009 and 2008, respectively. At June 30, 2009, this fund has a fund balance of $15 million. In prior years, this fund has received transfers from the Affordable Housing Mortgage Subsidy Program (AHMSP) funds. Act No. 124, the enabling legislation pursuant to which the AHMSP was created, allows for the transfer of fund surplus identified in other stages under the act to be used, among other permissible uses, to increase the Key for your Home Program fund.

AHMSP - Stages 7, 8, and 9 — The Stage 7 is a major fund and Stages 8 and 9 are nonmajor funds but management has elected to present these separately in the balance sheet and statement of revenues, expenditures and changes in fund balances to be consistent with their presentation in prior years. Following is an analysis of the operations of these funds:

These funds' operating objective is to provide funds for low-income families to be used either for the down payment on mortgages or mortgage subsidy payments. The funds receive appropriations from the Commonwealth to fund these payments.

AHMSP - Stage 7 — Expenditures exceeded revenues by $2 million for the year ended June 30, 2009. This is attributed to lower than expected Commonwealth appropriations received for the payment of the annual debt service.

AHMSP - Stage 8 — This fund had a net change in fund balance of $51,000 resulting from revenues of $867,000 less total expenditures of $816,000.

AHMSP - Stage 9 — During the year ended June 30, 2009, the fund received an appropriation from the Commonwealth in the amount of $26,092. These funds were used to repay advances from the Bank that had been used to fund subsidy payments.

Business-Type Activities

Condensed financial information on assets, liabilities, and net assets as of June 30, 2009 and 2008, is presented below (amounts in thousands):

	June 30,		Change	
	2009	2008	Amount	Percent
Assets:				
Cash and due from banks	$ 23,623	$ 81,922	$ (58,299)	(71.2)%
Federal funds sold	1,364,000	316,620	1,047,380	330.8%
Deposits placed with banks	1,086,366	1,566,118	(479,752)	(30.6)%
Investments and investment contracts	4,274,333	4,287,850	(13,517)	(0.3)%
Loans receivable — net	6,683,341	5,460,899	1,222,442	22.4%
Interest and other receivables	193,892	262,630	(68,738)	(26.2)%
Real estate available for sale	204,688	59,472	145,216	244.2%
Capital assets	17,452	27,397	(9,945)	(36.3)%
Other assets	57,657	52,678	4,979	9.5%
Internal balances	85,221	92,028	(6,807)	(7.4)%
Total assets	13,990,573	12,207,614	1,782,959	14.6%
Liabilities:				
Deposits:				
Demand	3,187,495	2,720,148	467,347	17.2%
Certificates of deposit	4,367,313	4,283,385	83,928	2.0%
Securities sold under agreements to repurchase	859,053	687,200	171,853	25.0%
Commercial paper		500	(500)	(100.0)%
Accrued interest payable	24,931	27,909	(2,978)	(10.7)%
Accounts payable, accrued liabilities, and other liabilities	86,315	94,959	(8,644)	(9.1)%
Certificates of indebtedness	11,800	11,800		
Bonds and notes payable:				
Due in one year	136,679	156,652	(19,973)	(12.7)%
Due in more than one year	2,895,180	1,949,435	945,745	48.5%
Total liabilities	11,568,766	9,931,988	1,636,778	16.5%
Net assets:				
Invested in capital assets	17,452	27,397	(9,945)	(36.3)%
Restricted for:				
Mortgage loan insurance	58,600	54,386	4,214	7.7%
Affordable housing programs	173,211	175,073	(1,862)	(1.1)%
Unrestricted	2,172,544	2,018,770	153,774	7.6%
Total net assets	$ 2,421,807	$ 2,275,626	$ 146,181	6.4%

Federal Funds Sold and Deposits Placed with Banks — The Bank incremented its federal funds sold by $1,047 million, from $316.6 million at June 30, 2008 to $1,364 million at June 30, 2009, while reducing its deposits placed with banks by 31%, from $1,566 million to $1,086 million. The Bank had reduced the federal funds during 2008 in favor of other instruments with higher returns, but as funds available exceeded the limit imposed by our policies, the federal funds sold increased particularly at year-end.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to $4,274 million at June 30, 2009. This amount represents a slight decrease of $13.5 million or 0.3% when compared to the prior year balance of $4,288 million.

Similar to the government-wide basis share, the investment portfolio comprised 30.6% of the total assets of the Bank's business-type activities at June 30, 2009, down by 4.5% as compared to 35.1% at the close of fiscal year 2008. Within the investment securities portfolio, $1,693 million at June 30, 2009 and $1,653 million at June 30, 2008 were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable increased by $1,222 million, from the $5,461 million balance at June 30, 2008 to $6,683 million at June 30, 2009. The increase arises from the Bank's basic role of providing financial support to the Commonwealth's public works, particularly in times of economic hardships, such as the prevailing circumstances in the Island and world-wide. To back the governmental efforts in improving and stimulating the Island's economy, the Bank financed the development and construction of infrastructure, housing projects and hotels. Among the new financings, there are $165 million or 13.5% of the increase that are payable with funds from the American Recovery and Reinvestment Act (ARRA).

Loans to municipalities are responsible by 14.5% of the net increase with $174 million over prior year's balance. Some of these loans were possible with the improvement of their debt margin capacity as a result of the municipal sales tax and the municipal redemption fund.

Private sector loans outstanding at June 30, 2009 and 2008 amounted to $457 million and $475 million, respectively, net of an allowance for loan losses of $73.7 million and $30.8 million, respectively. 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.

Real Estate Available for Sale — Compared to June 30, 2008, real state grew from $59.5 million to $204.7 million due to the receipt of several properties in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. Their original appraised value was $155.9 million. The Bank reappraised all the properties and, due to a decrease in value of $27 million, a receivable was recorded as permitted by the agreement entered into with the transferor. Presently, the Bank is dealing with the agencies involved in the transaction to obtain other properties to satisfy the deficiency in their current value, while it is already working in their disposition through the sale to either other public parties for which the properties may be appropriate for an ongoing plan or to interested private parties. See Note 7 to the basic financial statements for additional information on real estate available for sale.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to $17.5 million at June 30, 2009, a decrease of $9.9 million from prior year. The decrease comes from the reclassification of a lot of land where the Bank intended to build its new headquarters; however, the project was cancelled in the current year. The property has a carrying value of $8.1 million and was reclassified to real estate available for sale. 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 increase of $551 million, from $7,004 million at June 30, 2008 to $7,555 million at June 30, 2009. Deposits constitute approximately two thirds of total liabilities, 65.3% and 70.5% at June 30, 2009 and 2008, respectively.

Securities Sold under Agreement to Repurchase — Securities sold under agreements to repurchase increased by $172 million or by 25% from $687 million to $859 million at June 30, 2009. These obligations partially replaced commercial paper as a source of funding.

Other Borrowed Funds — The Bank issued several note series during fiscal year 2009, which explains the net growth of $925.8 million or $44.0% over last year's balance of $2,106 million. The Bank uses the proceeds of the obligations for general operational purposes that include, among others, the substitution of higher cost debt, increasing its investment portfolio and the funding of loans. All the notes issued during fiscal year 2009 consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019, but also all have early redemption options. Interest rates range from 5.5% to 6.5%. (Refer to Note 13).

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2009 and 2008 is presented below (in thousands):

	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 —Transfer 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

	Year ended June 30, 2008			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$381,694	$35,759	$453,163	$ 107,228
Housing Finance Authority	92,053	10,905	97,610	16,462
Tourism Development Fund	16,159	3,408	21,377	8,626
Public Finance Corporation	7,165		7,234	69
Capital Fund	68	59	(4,835)	(4,844)
Development Fund	(5,099)	58	1,498	6,655
Other nonmajor	182	-	75	(107)
Total	$492,222	$50,189	$576,122	134,089
Special item —Early Retirement Program				(40,243)
Transfers from governmental activities				4,235
Change in net assets				98,081
Net assets — beginning of year				2,177,545
Net assets — end of year				$2,275,626

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 $332.6 million from its loan and investment portfolios, and $15 million in other charges for services. These revenues covered $318.8 million in expenses for net revenues from GDB Operating Fund of $28.7 million, surpassing the net revenues of any other activity. The contribution received from PRIFA raised the change in net assets by $154.2 million to $182.9 million.

The Housing Finance Authority activities were the second largest contributor to the change in net assets with net revenues of $24.7 million. Most major component units closed fiscal year 2009 with net losses as follows: the Tourism Development Fund, $49.3 million; Capital Fund, $16.2 million and Development Fund, $2.5 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 $13,010 million at June 30, 2009, compared to $10,896 million at June 30, 2008. This represents an increase of $2,114 million, which was mainly sustained by the net increase in liabilities of $1,931 million. As already discussed, the GDB Operating Fund issued debt widening its assets base and obtaining more liquidity to assist the governmental needs in times of economic distress. Loans to the public sector increased by $1,243 million and investments by $218 million. However, the accrued interest receivable decreased from $259 million at June 30, 2008 to $120 million at June 30, 2009. This represents a reduction of 53.5%. Some of the interest was collected from a local bond issue of the Sales Tax Financing Corporation. (Refer to note 5.)

Income before special items and transfers of the GDB Operating Fund experienced a significant decline from $107.2 million in fiscal year 2008 to $28.7 million in fiscal year 2009, or a reduction of $78.6 million, which represents a 73.3%. 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, decreased $56.2 million or 49.9%, from $112.5 million in 2008 to $56.4 million in 2009. Most of the reduction results from the investment portfolio which shows a decrease of $96.8 million or 49.7% compared to prior year results. Change in fair value of investments contributed in the decline with a loss of $900,000. That is $5.1 million less than the $4.2 million gain of fiscal year 2008. Interest income from loans also decreased $18.7 million or 7.4% mainly because of lower rates, even though average balance was higher than that of 2008. Interest expense decreased $64.4 million or 18.9%.

(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 as the present, provides continued comfort to management in their belief that there is no need for further provisions for either the loan portfolio or for the guarantees and letters of credit.

(c) Non-interest Income

Fiscal agency fees constitute the main component of non-interest income. The activity of fiscal year 2009 was within the usual range, which is approximately from $8 million to $10 million. However, compared to the intense activity of fiscal year 2008, the $10.9 million of 2009 represents a reduction of 46%.

(d) Non-interest Expenses

Total non-interest expenses showed no significant variation; they barely increased $700,000. To help in the disposition of the various real estate properties that the Bank has in inventory, the Bank hired the services of some realtors. Consequently, the Bank adjusted the net realizable value of certain properties available for sale by the added costs of sale. The adjustment amounted to $1.2 million.

(e) *Special Item* — In January 2009, it was determined that the liquidation of various U.S. Treasury State and Local Government Securities (SLGS) used as collateral for Special Obligation Bonds issued in 2000 by PRIFA to finance various capital projects for the Puerto Rico Aqueduct and Sewer Authority would provide resources to cancel the debt as well as to make a contribution to the Bank and help the Commonwealth to cope with the projected deficit of fiscal year 2009.

Upon redemption of the SLGS and after the debt service of the 2000 Bonds, $762.6 million were received from the redemption proceeds. Of this amount, $300 million was set to capitalize the Corpus Account of PRIFA, $308.4 million was paid out to the Commonwealth's Treasury Department to close the 2009 fiscal year budget deficit, and $154.2 million was contributed to the Bank. The contribution was received during 2009, except for $53.5 million accrued as a receivable at June 30, 2009.

Housing Finance Authority — Net assets of the Authority increased $31 million from $546 million in 2008 to $577 million in 2009 as a result of decreases in total assets of $153 million and in liabilities of $184 million. The decrease in total assets is mainly due to the following:

- Investments and deposits placed with banks decreased from $1,562 million in 2008 to $1,411 million in 2009 or a $151 million decrease. This decrease was principally the result of the partial redemption of the Single Family Mortgage Revenue Bonds Portfolio X with unused proceeds of $145 million.

- Loans receivable decreased $3 million, from $206 million in 2008 to $203 million in 2009. The decrease in loans receivable was principally the result of the sale of loans amounting to $33.5 million that took place in fiscal year 2009, a significant increase when compared to loan sales of $5 million during 2008. Also, principal collected during 2009 amounted to $12.7 million. The decrease was partially offset by loan originations of approximately $41.7 million.

The decrease in total liabilities is mainly due to an early redemption of the Single Family Mortgage Revenue Bonds Portfolio X for $145 million.

However, change in net assets grew $19.4 million, from $11.9 million in 2008 to $31.3 million in 2009. Two main areas contributed to this: the net increase in fair value of investments, $13.6 million in 2009, which is $14.4 million over prior year's results, and the cost in 2008 of the early retirement program that amounted to $8.8 million.

Tourism Development Fund — Total assets decreased to $382.1 million from $393.6 million in 2008. The net reduction in assets results from an increase in liabilities of $37.8 million offset by a loss of $49 million. The Tourism Development Fund mostly finance its loan portfolio through facilities obtained from the Bank. Notes payable due to the Bank at year-end were $246.3 million for an increase of $32.3 million from June 30, 2008. The Tourism Fund originated approximately $34 million in loans to the private sector during the year ended June 30, 2009. These loans are principally collateralized by real estate property to minimize the credit

risk. During fiscal year 2009, the Tourism Development Fund adjusted its allowance for possible loan losses due mainly to an impaired loan for which the current appraised value of the collateral, net of estimated selling costs, is lower than the net investment in the loan. The adjustment amounted to $47 million.

At June 30, 2009, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $117 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of $6 million.

Net assets of the Tourism Development Fund decreased $49.3 million during the year to $100.7 million at June 30, 2009 because of provision expenses that totaled $53 million. However, there were no charges or actual disbursements on guarantees and letters of credit.

Public Finance Corporation — Change in net assets decreased to $10,000 from $69,000 in fiscal year 2008. On October 21, 2008, the Sales Tax Corporation restructured certain escrow funds. The restructuring provided $158.4 million of which $80.2 million were used for the redemption of certain no commitment debt of the Public Finance Corporation. (Refer to Note 18.)

Capital Fund — The Capital Fund's total net assets decreased $16.2 million, which represents a negative variance of $11.4 million when compared to the prior year net loss of $4.8 million. The results of the Capital Fund are determined by the fluctuations of the investment market and the resulting change in fair value of investments that in 2009 decreased by approximately $16.7 million.

Development Fund — The Development Fund net loss was the result of a $2.9 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, 2009, the Development Fund has outstanding guarantees amounting to approximately $14.7 million.

5. 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
AS OF JUNE 30, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and due from banks	$ -	$ 5,848,209	$ 5,848,209
Federal funds sold		1,364,000,000	1,364,000,000
Deposits placed with banks		1,085,257,933	1,085,257,933
Investments and investment contracts		2,580,994,163	2,580,994,163
Loans receivable — net		6,677,450,043	6,677,450,043
Interest and other receivables		191,390,695	191,390,695
Due from other funds	(85,221,237)	85,221,237	-
Restricted assets:			
Cash and due from banks	2,358,005	17,774,624	20,132,629
Deposits placed with banks	26,362,005	1,108,433	27,470,438
Investments and investment contracts	99,257,908	1,693,338,354	1,792,596,262
Loans receivable — net	2,062,522	5,891,379	7,953,901
Interest and other receivables	2,913,776	2,500,806	5,414,582
Real estate available for sale	519,467	1,291,251	1,810,718
Other assets	329,908	7,042,204	7,372,112
Real estate available for sale		203,396,509	203,396,509
Capital assets:			
Land		2,845,005	2,845,005
Other capital assets		14,607,253	14,607,253
Other assets		50,614,763	50,614,763
Total	48,582,354	13,990,572,861	14,039,155,215
LIABILITIES:			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		3,187,494,544	3,187,494,544
Certificates of deposit:			
Due within one year		4,314,663,978	4,314,663,978
Due in more than one year		52,648,946	52,648,946
Securities sold under agreements to repurchase:			
Due within one year		419,053,110	419,053,110
Due in more than one year		440,000,000	440,000,000
Accrued interest payable		22,579,090	22,579,090
Accounts payable and accrued liabilities:			
Due within one year		42,598,666	42,598,666
Due in more than one year		5,563,382	5,563,382
Allowance for losses on guarantees and letters of credit:			
Due within one year		1,747,801	1,747,801
Due in more than one year		9,623,073	9,623,073
Certificates of indebtedness — due in more than one year		11,800,000	11,800,000
Participation agreement payable		26,000,000	26,000,000
Bonds and notes payable:			
Due within one year		72,659,611	72,659,611
Due in more than one year	4,811,237	2,000,065,692	2,004,876,929
Liabilities payable from restricted assets:			
Accrued interest payable	256,832	2,352,381	2,609,213
Accounts payable and accrued liabilities — due within one year	14,638,757	594,011	15,232,768
Allowance for losses on mortgage loan insurance		188,652	188,652
Bonds and mortgage-backed certificates payable:			
Due within one year		64,019,136	64,019,136
Due in more than one year		895,114,148	895,114,148
Total liabilities	19,706,826	11,568,766,221	11,588,473,047
NET ASSETS:			
Invested in capital assets		17,452,258	17,452,258
Restricted for:			
Debt service	29,079,599		29,079,599
Affordable housing programs	4,534,090	173,211,355	177,745,445
Mortgage loan insurance		58,599,573	58,599,573
Unrestricted net assets (deficit)	(4,738,161)	2,172,543,454	2,167,805,293
TOTAL NET ASSETS	$ 28,875,528	$ 2,421,806,640	$ 2,450,682,168

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, 2009

		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	$ 4,554,651	$ -	$ -	$ -	$ (4,554,651)	$ -	$ (4,554,651)
Housing assistance programs	177,085,398		6,616,163	127,410,875	(43,058,360)		(43,058,360)
Total governmental activities	181,640,049	-	6,616,163	127,410,875	(47,613,011)	-	(47,613,011)
Business-type activities:							
GDB Operating Fund	318,791,630	14,961,381	332,559,289			28,729,040	28,729,040
Housing Finance Authority	88,023,747	11,391,107	101,321,568			24,688,928	24,688,928
Tourism Development Fund	63,283,876	3,341,304	10,685,185			(49,257,387)	(49,257,387)
Public Finance Corporation	3,745,134		3,755,041			9,907	9,907
Capital Fund	66,597	10,411	(16,136,233)			(16,192,419)	(16,192,419)
Development Fund	2,929,410	46,257	383,524			(2,499,629)	(2,499,629)
Other nonmajor	136,611		8,154			(128,457)	(128,457)
Total business-type activities	476,977,005	29,750,460	432,576,528	-	-	(14,650,017)	(14,650,017)
Total	$658,617,054	$29,750,460	$439,192,691	$127,410,875	(47,613,011)	(14,650,017)	(62,263,028)
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority						154,221,814	154,221,814
TRANSFERS IN (OUT) — Net					(6,609,010)	6,609,010	-
Total general revenues and transfers					(6,609,010)	160,830,824	154,221,814
CHANGE IN NET ASSETS					(54,222,021)	146,180,807	91,958,786
NET ASSETS — Beginning of year					83,097,549	2,275,625,833	2,358,723,382
NET ASSETS — End of year					$ 28,875,528	$2,421,806,640	$2,450,682,168

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, 2009

	Affordable Housing Mortgage Subsidy Program — Stage 7	Affordable Housing Mortgage Subsidy Program — Stage 8	Affordable Housing Mortgage Subsidy Program — Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:									
Due from other funds	$ -	$ 31,769	$ -	$ 36,883	$ 591,748	$ -	$ 15,548,410	$(13,196,483)	$ 3,012,327
Restricted:									
Cash and due from banks		87,169				2,161,623	109,213		2,358,005
Deposits placed with banks					13,846,078		12,515,927		26,362,005
Investments and investment contracts	21,869,155	1,535,266	12,476,026				63,377,461		99,257,908
Loans receivable, net							2,062,522		2,062,522
Due from other funds		14,008,526		25,446	60,343	784,351	19,163,475		34,042,141
Interest and other receivables	86,611	7,737	2,807		138,944	2,511,356	166,321		2,913,776
Real estate available for sale							519,467		519,467
TOTAL	$ 21,955,766	$15,670,467	$12,478,833	$ 62,329	$14,637,113	$5,457,330	$113,462,796	$(13,196,483)	$170,528,151
LIABILITIES:									
Due to other funds	$ 70,832,544	$ -	$ 340,458	$ 49,673,903	$ -	$1,013,195	$ 13,612,088	$(13,196,483)	$122,275,705
Restricted — accounts payable and accrued liabilities	1,287,018	498,422	294,452	5,698,700	34,601	4,444,135	2,381,429		14,638,757
Total liabilities	72,119,562	498,422	634,910	55,372,603	34,601	5,457,330	15,993,517	(13,196,483)	136,914,462
FUND BALANCES (DEFICIT):									
Reserved for:									
Long-term loans receivable and other assets							2,581,989		2,581,989
Debt service							29,079,599		29,079,599
Unreserved — special revenue funds	(50,163,796)	15,172,045	11,843,923	(55,310,274)	14,602,512		65,807,691		1,952,101
Total fund balances (deficit)	(50,163,796)	15,172,045	11,843,923	(55,310,274)	14,602,512	-	97,469,279	-	33,613,689
TOTAL	$ 21,955,766	$15,670,467	$12,478,833	$ 62,329	$14,637,113	$5,457,330	$113,462,796	$(13,196,483)	$170,528,151

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balance	$ 33,613,689
Deferred bond issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	329,908
Long-term liabilities, including 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	(256,832)
Net assets of governmental activities	$ 28,875,528

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 CHANGE IN FUND BALANCES — GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009

	Affordable Housing Mortgage Subsidy Program — Stage 7	Affordable Housing Mortgage Subsidy Program — Stage 8	Affordable Housing Mortgage Subsidy Program — Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:								
Commonwealth appropriations for repayment of bonds and for housing assistance programs	$ 416,858	$ -	$ 26,092	$ -	$ -	$ -	$ 1,810,481	$ 2,253,431
Intergovernmental — federal government						118,532,083		118,532,083
Interest on investments and deposits placed with banks	1,465,287	821,013	516,782	1,959	589,411		2,884,893	6,279,345
Interest income on loans							224,595	224,595
Net increase in fair value of investments		46,046					66,177	112,223
Net gain on sale of real estate available for sale							249,970	249,970
Other				497,594	1,930,969		95,920	2,524,483
Total revenues	1,882,145	867,059	542,874	499,553	2,520,380	118,532,083	5,332,036	130,176,130
EXPENDITURES:								
Current:								
General government and other	8,500	8,545				4,303,112	234,494	4,554,651
Housing assistance programs	2,047,270	807,053	811,572	5,693,643	20,745,482	114,228,971	4,403,037	148,737,028
Credit for loan losses							(87,422)	(87,422)
Debt service:								
Principal	150,768							150,768
Interest	1,593,414		12,364	1,459,906			493,199	3,558,883
Total expenditures	3,799,952	815,598	823,936	7,153,549	20,745,482	118,532,083	5,043,308	156,913,908
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,917,807)	51,461	(281,062)	(6,653,996)	(18,225,102)	-	288,728	(26,737,778)
OTHER FINANCING SOURCES (USES):								
Transfers-in							13,067,892	13,067,892
Transfers-out			(519,866)				(19,157,036)	(19,676,902)
Total other financing sources (uses)	-	-	(519,866)	-	-	-	(6,089,144)	(6,609,010)
NET CHANGE IN FUND BALANCES	(1,917,807)	51,461	(800,928)	(6,653,996)	(18,225,102)	-	(5,800,416)	(33,346,788)
FUND BALANCES (DEFICIT) — Beginning of year	(48,245,989)	15,120,584	12,644,851	(48,656,278)	32,827,614		103,269,695	66,960,477
FUND BALANCES (DEFICIT) — End of year	$(50,163,796)	$15,172,045	$11,843,923	$(55,310,274)	$ 14,602,512	$ -	$ 97,469,279	$ 33,613,689

See notes to basic financial statements.

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances — total governmental funds	$(33,346,788)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds	150,768
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	(24,860,409)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	3,850,908
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	(16,500)
Change in net assets of governmental activities	$(54,222,021)

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, 2009

ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
CURRENT ASSETS:									
Cash and due from banks	$ 5,770,346	$ 7,227,598	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,020,274)	$ 5,848,209
Federal funds sold	1,364,000,000								1,364,000,000
Deposits placed with banks	1,060,597,756	106,450,606	92,140,896					(173,931,325)	1,085,257,933
Investments and investment contracts	2,281,415,520		2,977,873		25,082,346				2,309,475,739
Loans receivable, net	801,029,454	4,776,000	8,780,000	2,050,855				(10,723,891)	805,912,418
Accrued interest receivable	120,307,996	1,614,970	655,371	3,730,434	112	3,041	202	(4,516,279)	121,795,847
Other current receivables	66,513,619	1,785,803	224			26,748			68,326,394
Other current assets	976,268	2,400	289,786						1,268,454
Due from governmental funds	109,840,613	12,435,092							122,275,705
Restricted:									
Cash and due from banks		17,897,272						(122,648)	17,774,624
Deposits placed with banks		365,380,400						(364,271,967)	1,108,433
Investments and investment contracts	365,539,760	184,906,901							550,446,661
Loans receivable, net		600,000							600,000
Accrued interest receivable		14,093,205						(11,598,438)	2,494,767
Other current receivables		6,039							6,039
Total current assets	6,175,991,332	717,176,286	116,293,043	7,140,321	25,082,458	36,697,570	2,395,035	(624,184,822)	6,456,591,223
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	576,258,797	737,029,479						(170,396,583)	1,142,891,693
Loans receivable, net		5,291,379							5,291,379
Real estate available for sale		1,291,251							1,291,251
Other assets		7,042,204							7,042,204
Investments and investment contracts	326,106,666	17,628,800	22,586,682		41,516,569	3,138,583		(139,458,876)	271,518,424
Loans receivable, net	5,675,735,320	192,023,957	243,253,205	99,000,000				(338,474,857)	5,871,537,625
Real estate available for sale	200,959,644	2,436,865							203,396,509
Capital assets:									
Land	2,845,005								2,845,005
Other capital assets	10,448,458	4,158,795							14,607,253
Other assets	41,734,759	8,880,004							50,614,763
Total noncurrent assets	6,834,088,649	975,782,734	265,839,887	99,000,000	41,516,569	3,138,583	-	(648,330,316)	7,571,036,106
TOTAL ASSETS	$13,010,079,981	$1,692,959,020	$382,132,930	$106,140,321	$66,599,027	$39,836,153	$2,395,035	$(1,272,515,138)	$14,027,627,329

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, 2009

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 3,250,161,806	$ -	$ -	$ -	$ -	$ -	$ -	$ (62,667,262)	$ 3,187,494,544
Certificates of deposit	4,852,867,272							(538,203,294)	4,314,663,978
Securities sold under agreements to repurchase	419,053,110								419,053,110
Accrued interest payable	34,464,747	17,708	471,306	3,740,048				(16,114,719)	22,579,090
Accounts payable and accrued liabilities	27,869,426	9,645,093	1,424,782	81,581	42,014	4,831	6,595	3,524,344	42,598,666
Allowance for losses on guarantees and letters of credit						1,747,801			1,747,801
Due to governmental funds	34,042,141	3,012,327							37,054,468
Notes payable	72,659,611		8,400,000	2,323,891				(10,723,891)	72,659,611
Total current liabilities payable from unrestricted assets	8,691,118,113	12,675,128	10,296,088	6,145,520	42,014	1,752,632	6,595	(624,184,822)	8,097,851,268
Current liabilities payable from restricted assets:									
Accrued interest payable		2,352,381							2,352,381
Accounts payable and accrued liabilities		594,011							594,011
Bonds and mortgage-backed certificates payable		64,019,136							64,019,136
Total current liabilities	8,691,118,113	79,640,656	10,296,088	6,145,520	42,014	1,752,632	6,595	(624,184,822)	8,164,816,796

See notes to basic financial statements.

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

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2009

LIABILITIES AND NET ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total Enterprise Funds
Noncurrent liabilities:									
Certificates of deposits, principally from the Commonwealth of Puerto Rico and and its public entities	$ 223,045,529	$ -	$ -	$ -	$ -	$ -	$ -	$ (170,396,583)	$ 52,648,946
Certificates of indebtedness	11,800,000								11,800,000
Securities sold under agreements to repurchase	440,000,000								440,000,000
Allowance for losses on guarantees and letters of credit	1,000,000		7,281,000			1,342,073			9,623,073
Accounts payable and accrued liabilities	3,186,855						2,376,527		5,563,382
Participation agreement payable			26,000,000						26,000,000
Notes payable	2,000,065,693	1,597,005	237,877,852	98,999,999				(338,474,857)	2,000,065,692
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance		188,652							188,652
Bonds and mortgage-backed certificates payable		1,034,573,024						(139,458,876)	895,114,148
Total noncurrent liabilities	2,679,098,077	1,036,358,681	271,158,852	98,999,999	-	1,342,073	2,376,527	(648,330,316)	3,441,003,893
Total liabilities	11,370,216,190	1,115,999,337	281,454,940	105,145,519	42,014	3,094,705	2,383,122	(1,272,515,138)	11,605,820,689
NET ASSETS:									
Invested in capital assets	13,293,463	4,158,795							17,452,258
Restricted for:									
Mortgage loan insurance		58,599,573							58,599,573
Affordable housing programs		173,211,355							173,211,355
Unrestricted	1,626,570,328	340,989,960	100,677,990	994,802	66,557,013	36,741,448	11,913		2,172,543,454
Total net assets	1,639,863,791	576,959,683	100,677,990	994,802	66,557,013	36,741,448	11,913	-	2,421,806,640
TOTAL LIABILITIES AND NET ASSETS	$13,010,079,981	$1,692,959,020	$382,132,930	$106,140,321	$66,599,027	$39,836,153	$2,395,035	$(1,272,515,138)	$14,027,627,329

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, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total Enterprise Funds
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold	$ 2,902,988	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,902,988
Interest income on deposits placed with banks	9,284,246	25,983,216	1,456,021	24,973		302,665	8,154	37,059,275
Interest and dividend income on investments and investment contract	85,829,640	48,619,811	1,670,441		584,679	320,976		137,025,547
Net increase (decrease) in fair value of investments	(938,833)	13,607,274	32,516		(16,720,912)	(240,117)		(4,260,072)
Total investment income (loss)	97,078,041	88,210,301	3,158,978	24,973	(16,136,233)	383,524	8,154	172,727,738
Interest income on loans receivable:								
Public sector	235,481,248			3,730,068				239,211,316
Private sector		13,111,267	7,526,207					20,637,474
Total interest income on loans receivable	235,481,248	13,111,267	7,526,207	3,730,068	-	-	-	259,848,790
Total investment income (loss) and interest income on loans receivable	332,559,289	101,321,568	10,685,185	3,755,041	(16,136,233)	383,524	8,154	432,576,528
Noninterest income:								
Fiscal agency fees	10,949,657	458,767						11,408,424
Commitment, guarantee and other service fees	3,707,979	6,863,885	2,961,264			46,257		13,579,385
Mortgage loan insurance premiums		3,000,213						3,000,213
Net gain on sale of real estate available for sale		483,266						483,266
Gain on sale of loans		335,030						335,030
Other income	303,745	249,946	380,040		10,411			944,142
Total noninterest income	14,961,381	11,391,107	3,341,304	-	10,411	46,257	-	29,750,460
Total operating revenues (loss)	347,520,670	112,712,675	14,026,489	3,755,041	(16,125,822)	429,781	8,154	462,326,988
OPERATING EXPENSES:								
Provision (credit) for loan losses		(540,015)	47,001,496					46,461,481
Interest expense:								
Deposits	165,773,611							165,773,611
Securities sold under agreements to repurchase	30,635,161							30,635,161
Commercial paper	21,757							21,757
Certificates of indebtedness	240,556							240,556
Bonds, notes and mortgage-backed certificates payable	79,528,858	71,146,503	9,491,977	3,740,048				163,907,386
Total interest expense	276,199,943	71,146,503	9,491,977	3,740,048	-	-	-	360,578,471

See notes to basic financial statements.

(Cotinued)

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, 2009

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total Enterprise Funds
Noninterest expenses:								
Salaries and fringe benefits	$ 24,270,730	$ 10,586,310	$ -	$ -	$ -	$ -	$ 69,216	$ 34,926,256
Depreciation and amortization	1,801,865	1,031,371						2,833,236
Occupancy and equipment costs	4,074,422	2,188,588	110					6,263,120
Legal and professional fees	2,559,363	2,672,405	776,482	4,544	35,460	36,738	47,190	6,132,182
Office and administrative	372,036	399,401			30,168			801,605
Subsidy and trustee fees	3,870	262,684						266,554
Provision for losses on guarantees and letters of credit			6,010,948			2,892,047		8,902,995
Other	6,051,397	276,500	2,863	542	969	625	20,205	6,353,101
Total noninterest expenses	39,133,683	17,417,259	6,790,403	5,086	66,597	2,929,410	136,611	66,479,049
Total operating expenses	315,333,626	88,023,747	63,283,876	3,745,134	66,597	2,929,410	136,611	473,519,001
OPERATING INCOME (LOSS)	32,187,044	24,688,928	(49,257,387)	9,907	(16,192,419)	(2,499,629)	(128,457)	(11,192,013)
NONOPERATING EXPENSES — Contributions to Cooperative Development Investment Trust Fund and others	3,458,004							3,458,004
SPECIAL ITEM — Contribution from Puerto Rico Infrastructure Financing Authority	154,221,814							154,221,814
TRANSFERS IN		8,719,402					100,000	8,819,402
TRANSFERS OUT	(100,000)	(2,110,392)						(2,210,392)
CHANGE IN NET ASSETS	182,850,854	31,297,938	(49,257,387)	9,907	(16,192,419)	(2,499,629)	(28,457)	146,180,807
NET ASSETS — Beginning of year	1,457,012,937	545,661,745	149,935,377	984,895	82,749,432	39,241,077	40,370	2,275,625,833
NET ASSETS — End 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

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, 2009

	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	$	$ 12,467,615	$	$	$	$	$	$	$ 12,467,615
Cash paid for housing program loans originated		(41,672,867)							(41,672,867)
Principal collected on housing program loans		12,724,092							12,724,092
Proceeds from sales of housing program loans		33,838,068							33,838,068
Guarantee fees collected			3,439,096			46,257			3,485,353
Payment of guarantees						(645,516)			(645,516)
Cash received from other operating non-interest revenues	19,128,074	9,831,376	380,040		10,411				29,349,901
Due from/to governmental funds	11,536,197	(4,729,210)							6,806,987
Cash payments for other operating non-interest expenses	(46,304,793)	(22,339,449)	(1,456,972)	(4,056)	(34,814)	(3,646,948)	(120,673)	2,881,509	(71,026,196)
Cash received from mortgage loans insurance premium		3,000,213							3,000,213
Net cash provided by (used in) operating activitie	(15,640,522)	3,119,838	2,362,164	(4,056)	(24,403)	(4,246,207)	(120,673)	2,881,509	(11,672,350)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions to others	(3,458,004)								(3,458,004)
Transfers in		28,034,226					100,000		28,134,226
Transfers out	(100,000)	(22,405,220)							(22,505,220)
Net increase (decrease) in:									
Deposits	635,129,766							(83,855,908)	551,273,858
Commercial paper	(500,000)								(500,000)
Proceeds from issuance of securities sold under agreements to repurchase	4,863,313,678								4,863,313,678
Payment of securities sold under agreements to repurchase	(4,691,460,568)								(4,691,460,568)
Proceeds from issuance of bonds and notes	1,680,000,000	1,597,006	32,449,592					(34,046,598)	1,680,000,000
Repayments of bonds and notes	(559,915,000)	(215,087,160)	(106,204)	(2,612,186)				2,718,390	(775,002,160)
Payment of notes issuance costs	(14,438,967)								(14,438,967)
Escrow deposit received from the Commonwealth				93,482					93,482
Escrow payments				(15,681)					(15,681)
Contribution from Puerto Rico Infrastructure Financing Authority	100,702,498								100,702,498
Interest paid	(263,027,892)	(36,084,023)	(9,875,635)	(7,160,998)				2,973,516	(313,175,032)
Net cash provided by (used in) noncapital financing activities	1,746,245,511	(243,945,171)	22,467,753	(9,695,383)			100,000	(112,210,600)	1,402,962,110

See notes to basic financial statements.

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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, 2009

	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 CAPITAL AND RELATED FINANCING ACTIVITIES — Purchase of capital asset	$ (370,790)	$ (642,650)	$ -	$ -	$ -	$ -	$ -	$ -	$ (1,013,440)
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold	(1,047,380,000)								(1,047,380,000)
Deposits placed with banks	444,402,244	(28,163,340)	(47,140,896)					110,653,301	479,751,309
Purchases of investments	(11,439,994,173)	(82,934,721)	(6,217,333)						(11,529,146,227)
Proceeds from sales and redemptions of investments	11,233,217,368	286,308,076	53,153,795					(29,049,893)	11,543,629,346
Interest and dividends received on investments	100,670,464	63,295,228	271,730	26,003	24,403	675,455	10,641	809,220	165,783,144
Interest received on other than housing program loans	350,770,681		8,115,956	6,296,390				(3,782,737)	361,400,290
Origination of other than housing program loans	(3,843,218,189)		(33,984,588)					34,046,598	(3,843,156,179)
Principal collected on other than housing program loans	2,433,263,674		1,052,229	3,476,792				(2,718,390)	2,435,074,305
Disbursements for acquisition and improvements to real estate held for sale	(16,014,280)	(478,821)							(16,493,101)
Proceeds from sale of real estate held for sale		1,811,687							1,811,687
Net change in other assets		149,884							149,884
Net cash provided by (used in) investing activities	(1,784,282,211)	239,987,993	(24,749,107)	9,799,185	24,403	675,455	10,641	109,958,099	(1,448,575,542)
NET CHANGE IN CASH AND DUE FROM BANKS	(54,048,012)	(1,479,990)	80,810	99,746		(3,570,752)	(10,032)	629,008	(58,299,222)
CASH AND DUE FROM BANKS — Beginning of year	59,818,358	26,604,860	11,368,083	1,259,286		40,238,533	2,404,865	(59,771,930)	81,922,055
CASH AND DUE FROM BANKS — End 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
RECONCILIATION TO ENTERPRISE FUNDS BALANCE SHEET:									
Cash – unrestricted	$ 5,770,346	$ 7,227,598	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,020,274)	$ 5,848,209
Cash – restricted		17,897,272						(122,648)	17,774,624
TOTAL CASH AT YEAR END	$ 5,770,346	$ 25,124,870	$ 11,448,893	$ 1,359,032	$ -	$36,667,781	$2,394,833	$ (59,142,922)	$ 23,622,833

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, 2009

	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)	$ 32,187,044	$ 24,688,928	$(49,257,387)	$ 9,907	$(16,192,419)	$(2,499,629)	$(128,457)	$ -	$ (11,192,013)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(98,016,874)	(74,603,027)	(3,126,462)	(24,973)	(584,679)	(623,641)	(8,154)		(176,987,810)
Interest income on other than housing program loans	(235,481,248)		(7,526,207)	(3,730,068)					(246,737,523)
Interest expense	276,199,943	71,146,503	9,491,977	3,740,048					360,578,471
Capitalized interest on loans		(728,393)							(728,393)
Provision (credit) for loan losses		(540,015)	47,001,496						46,461,481
Provision for losses on guarantees and letters of credit			6,010,948			2,892,047			8,902,995
Payments of guarantees						(645,516)			(645,516)
Credit for losses on mortgage loan insurance		(253,000)							(253,000)
Net decrease (increase) in fair value of investments	938,833	(13,607,274)	(32,516)		16,720,912	240,117			4,260,072
Provision (credit) for losses on real estate available for sale	1,194,035	(121,898)							1,072,137
Provision for losses on other assets		88,925							88,925
Net gain on sales of housing program loans		(335,030)							(335,030)
Gain on sale of real estate available for sale		(483,266)							(483,266)
Depreciation and amortization	1,801,865	1,031,371							2,833,236
Accretion of deferred loan fees, net		(586,148)							(586,148)
Changes in operating assets and liabilities:									-
Origination of housing program loans		(41,672,867)							(41,672,867)
Collections of housing program loans		12,724,092							12,724,092
Proceeds from sale of housing program loans		33,838,068							33,838,068
Interest receivable on housing program loans		84,741							84,741
Decrease in other assets	4,166,693	2,843,716	12,969						7,023,378
Decrease (increase) in due from governmental funds	11,536,197	(4,729,209)							6,806,988
Increase (decrease) in other liabilities	(10,167,010)	(5,666,379)	(212,654)	1,030	31,783	(3,609,585)	15,938	2,881,509	(16,725,368)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (15,640,522)	$ 3,119,838	$ 2,362,164	$ (4,056)	$ (24,403)	$(4,246,207)	$(120,673)	$2,881,509	$ (11,672,350)

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, 2009

	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 and capitalized interest on investments securities	$ 11,714,992	$ 10,515,446	$3,217,199	$ -	$ 550,266	$ -	$ -	$(10,515,446)	$ 15,482,457
Capitalized interest on loans and other	4,865,672	728,393							5,594,065
Transfer of loans receivable to real estate available for sale	140,477,592	1,306,634							141,784,226
Transfer of interest receivable on loans to real estate available for sale	3,676,270								3,676,270
Transfer of land to real estate available for sale	8,125,985								8,125,985
Decrease in fair value of real estate available for sale transferred to other receivables	(27,138,472)								(27,138,472)
Real estate available for sale received in lieu of payment of an account receivable	4,675,000								4,675,000
Accretion of discount (premium) on:									
Deposits	10,515,446							(10,515,446)	
Bonds payable	(3,189,129)	34,117,049						(10,513,377)	20,414,543
Increase (decrease) in fair value of investments	938,833	13,607,274	32,516		(16,720,912)	(240,117)		(10,513,377)	(12,895,783)
Transfers—in		19,194,382							19,194,382
Transfers—out		(19,194,382)							(19,194,382)
Amortization of bond issue cost (included in interest expense)	7,408,296	1,169,338							8,577,634
Amortization of deferred loss		359,647							359,647

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, 2009.

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 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 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. As of June 30, 2009, management, with the consent of the Bank's board of directors, deemed convenient to defer its implementation, and in the meantime elected a passive management considering it a more cost-effective mechanism.

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 U.S. GAAP, as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for State and Local Governments*, in the preparation of its financial statements. In the past, the Bank followed FASB pronouncements 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 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 taxes, 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. Following is a description of the Bank's government-wide financial statements.

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

- Invested in capital assets, net of 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 consist of net assets 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 funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column, except for those governmental nonmajor funds, which management has elected to present separately in the financial statements. 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 New Secure Housing Program fund. 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, 2009, 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:

- Affordable Housing Mortgage Subsidy Program (Stages 7, 8 and 9) — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 7, 8 and 9 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 Stage 9, 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, 2009.

- 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.

- 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.

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

- AHMSP (Stages 2, 3 and 6) — These special revenue funds are similar to Stages 7 and 8 described above. There was no open schedule of originations under these stages as of June 30, 2009.

- AHMSP (Stages 10 and 11) — These special revenue funds are similar to Stage 9 described above. At June 30, 2009, the Housing Finance Authority had a commitment, expiring on September 1, 2009, for the acquisition of mortgage-backed securities amounting to approximately $184 million.

- 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 accounts 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).

- 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.

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, 2009.

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 $5,063,010,000 or 36.1% of the Bank's total assets as of June 30, 2009. 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 seven 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 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 provides 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 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, 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.

In January 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 by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax. The increase will be effective in fiscal year 2010.

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, 2009, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealth 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 such 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, 2009. Also, the participation of certain public entities in the bond issuance market has been delayed waiting for the credit rating of the issuer 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 $482.8 million at June 30, 2009 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 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, 2009, loans to municipalities repayable from these accounts amounted to approximately $401.3 million.

Loans recorded in the governmental funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. A reserve for long-term loans receivable and other assets is recorded within fund balance representing amounts not expected to be collected within the next fiscal year.

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 November 17, 2009, the legislature of the Commonwealth approved a bill, subject to the Governor's signature, to amend the legislation which 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, the bill 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, 2009 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.

Derivative Instruments and Hedging Activities — On the date a derivative contract is entered into, the Bank designates the derivative as either a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

For all fair value hedging relationships, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair value to specific assets and liabilities on the balance sheet. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge are reflected in the statement of revenues, expenses, and changes in net assets, together with changes in the fair value of the related hedged item.

The Bank discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets or liabilities, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, the changes in the derivatives' fair value are reported in the statement of revenues, expenses, and changes in net assets. The Bank records on the balance sheet or statement of net assets, the fair value of derivatives intended to hedge the variability of cash flows to be received or paid related to a recognized assets or liability.

Derivative-like instruments embedded in contracts that meet certain criteria are separated from their host contract and carried at their fair value, while the host contract is accounted for based on GAAP applicable to instruments of that type that do not contain embedded derivative instruments. When the Bank enters into a derivative instrument for the purpose of managing its exposure on another freestanding or embedded derivative instrument, the derivative is recorded at its fair value on the balance sheet or statement of net assets and recognizes any changes in fair value in the statement of revenues, expenses, and changes in net assets or statement of activities.

At June 30, 2009, there were no derivative instruments outstanding.

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

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for periods beginning after June 15, 2010.

Adoption of these statements is not expected to have a material impact 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, 2009. 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 $1,113 million mature within one year. Federal funds sold mature overnight and no collateral is required. As of June 30, 2009, $2,496,047,009 of the depository bank balance of $2,498,573,433 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	$ 25,980,838	$ 21,845,062	$ 19,318,638
Deposits placed with banks	1,112,728,371	1,112,728,371	1,112,728,371
Federal funds sold	1,364,000,000	1,364,000,000	1,364,000,000
Total	$2,502,709,209	$2,498,573,433	$2,496,047,009

Reconciliation to the government-wide statement of net assets:

Unrestricted:	
Cash and due from banks	$ 5,848,209
Federal funds sold	1,364,000,000
Deposits placed with banks	1,085,257,933
Total unrestricted	2,455,106,142
Restricted:	
Cash and due from banks	20,132,629
Deposits placed with banks	27,470,438
Total restricted	47,603,067
Total	$2,502,709,209

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- 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
- 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 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 Fitch Ratings or Moody's Investors Service, 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 and management.

The following table summarizes the type and maturities of investments held by the Bank at June 30, 2009. 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	$ 27,721,558	$ -	$ -	$ -	$ 27,721,558
U.S. Treasury notes					
U.S. sponsored agencies notes:					
Federal Home Loan Bank ("FHLB")	454,689,760	61,794,310			516,484,070
Federal Home Loan Mortgage Corporation ("FHLMC")		15,002,550			15,002,550
Federal National Mortgage Association ("FNMA")		25,187,500		1,218,343	26,405,843
Federal Farm Credit Bank ("FFCB")	15,000,000	102,894,035			117,894,035
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")		3,304,156	1,989,929	501,082,464	506,376,549
FNMA		1,575,662	917,097	144,549,314	147,042,073
FHLMC	4,574		15,524,223	139,417,452	154,946,249
Other		3,061,215			3,061,215
Corporate debt:					
Popular, Inc.		98,750,000			98,750,000
Morgan Stanley	24,751,250				24,751,250
General Electric		5,937,014			5,937,014
Other		5,997,720			5,997,720
External investment pools — fixed-income securities	2,366,344,568				2,366,344,568
Nonparticipating investment contracts:					
CDC Funding				23,209,010	23,209,010
American International Group				170,396,583	170,396,583
Other			17,628,800	68,673,682	86,302,482
U.S. municipal notes				24,125,000	24,125,000
Commonwealth agency bonds		3,530,000		4,015,238	7,545,238
Total investments	$2,888,511,710	$327,034,162	$36,060,049	$1,076,687,086	4,328,293,007
External investment pools — equity securities:					
Russell 1000 Growth Common Trust Fund					30,972,238
Global Opportunities Capital Appreciation Fund					10,544,331
Preferred Stock-Grupo Hima San Pablo					3,138,583
Other					642,266
Total					$4,373,590,425
Reconciliation to the government-wide statement of net assets:					
Unrestricted investments and investment contracts					$2,580,994,163
Restricted investments and investment contracts					1,792,596,262
Total					$4,373,590,425

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 $150,056,167 invested with 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, 2009, $98,750,000 of the Bank's investment in corporate debt maturing over one year bears a variable interest rate resetting quarterly at 100% of an interest rate index plus a spread. Also, at June 30, 2009, approximately 67% 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, 2009 are as follows:

Securities Type	Credit Risk Rating AAA to A-	BBB+	BBB-	Total
U.S. sponsored agencies notes:				
FHLB	$ 516,484,070	$ -	$ -	$ 516,484,070
FHLMC	15,002,550			15,002,550
FNMA	26,405,843			26,405,843
FFCB	117,894,035			117,894,035
Mortgage and asset-backed securities:				
FNMA	147,042,073			147,042,073
FHLMC	154,926,997	19,252		154,946,249
Other	3,061,215			3,061,215
Corporate debt	36,685,984		98,750,000	135,435,984
External investment pools — fixed-income securities	2,366,344,568			2,366,344,568
Nonparticipating investment contracts	266,352,966	13,555,109		279,908,075
US municipal notes	24,125,000			24,125,000
Commonwealth agency bonds	4,015,238	3,530,000		7,545,238
Total	$3,678,340,539	$ 17,104,361	$98,750,000	$3,794,194,900

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2009 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, 2009, 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	$959,133,284
Securities sold under agreements to repurchase	859,053,110
Certificates of indebtedness	11,800,000

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at June 30, 2009 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	Public Finance Corporation	Total
Public corporations and agencies	$ -	$4,961,959	$ -	$ -	$101,051	$5,063,010
Municipalities		1,174,982				1,174,982
Allowance for loan losses		(9,550)				(9,550)
Total loans to public sector	-	6,127,391	-	-	101,051	6,228,442
Private sector	2,592	439	304,457	223,174		530,662
Allowance for loan losses	(529)	(264)	(52,424)	(20,483)		(73,700)
Total loans to private sector	2,063	175	252,033	202,691	-	456,962
Balance — end of year	$2,063	$6,127,566	$252,033	$202,691	$101,051	$6,685,404

(1) Excluding loans to component units

Reconciliation to the government-wide statement of net assets:	
Unrestricted loans receivable — net	$6,677,450
Restricted loans receivable — net:	
Governmental activities	2,063
Business-type activities	5,891
Total	$6,685,404

Public sector loans amounting to approximately $1,422 million as of June 30, 2009 were delinquent by 90 days or more or had matured, including approximately $89 million of loans classified as non-accrual. Interest income that would have been recorded if non-accrual loans had been accruing in accordance with their original terms was approximately $2.0 million in 2009. Interest collected on these loans during the year ended June 30, 2009 amounted to approximately $933 thousand.

At June 30, 2009, loans to public corporations and agencies of the Commonwealth amounting to approximately $5,063,010,000 were repayable from the following sources (in thousands):

Repayment source	Amount
FIA Fund	$1,064,251
Proceeds from future issuance of Commonwealth's general obligation bonds	1,303,936
Other — including future legislative appropriations and proceeds from future bond issuances from public entities other than the Commonwealth	2,694,823
Total	$5,063,010

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 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, and in recent years loans to finance the Commonwealth's budget deficit, which loans are payable from uncollected taxes and from annual appropriations made by the legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $5.1 billion or 36.1% of the Bank's government-wide total assets at June 30, 2009.

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 2008, 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 year 2009. Also, the approved Commonwealth's budget for fiscal year 2010 shows an excess of expenditures over revenues of approximately $1 billion. 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, 2009 the outstanding principal amount of loans granted to finance the Commonwealth's budget deficit was $240 million.

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 "Baa3" and "BBB-," respectively. On February 24, 2006, Moody's placed the Commonwealth's rating on Watchlist with negative implications. On March 22, 2006, S&P placed the Commonwealth's rating on CreditWatch with negative implications. On May 8, 2006, Moody's further downgraded the Commonwealth's appropriation debt rating from Baa3 to Ba1 and kept the ratings on Watchlist. On July 20, 2006, S&P confirmed its BBB- rating on the Commonwealth appropriation debt, and removed the rating from CreditWatch with negative implications. S&P's rating outlook, however, remained negative. On July 21, 2006, Moody's confirmed its Ba1 rating on the Commonwealth's appropriation debt and removed the rating from Watchlist with negative implications. On November 6, 2007, Moody's changed the rating outlook of the Commonwealth from negative to stable. At June 30, 2009, the Commonwealth's credit rating was BBB- and Baa3 by S&P & Moody's, respectively with a stable outlook on the Commonwealth's general obligation debt.

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. Act No. 117 also imposed other measures to address the structural budget imbalance, such as fiscal reform, government reorganization plan, and special income tax rates to certain transactions occurring during the first semester of fiscal year 2007.

The Legislature enacted on May 13, 2006 Act No. 91, which created the Imperative Interest Fund (the "IIF"), as a separate fund to be administered by the Department of the Treasury of the Commonwealth and GDB. The IIF 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, 2009, approximately $1.1 billion 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 IIF Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91 ownership of the IIF, renamed as the Dedicated Sales Tax Fund (the "Sales Tax 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.

In January 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 by an additional 0.75% or to 2.75%, which represents 50% of the Commonwealth's share of the sales and consumption tax. This increase will be effective in fiscal year 2010. 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.

In June 2009, the Sales Tax Corporation issued $5.2 billion Tax Revenue Bonds, Series 2009 A, B and C whose proceeds were applied to various uses as stated in Act No. 91, as amended, including among other, the payment to the Bank of the $1,000 million Tax Receivable Anticipation Bonds issued by the Commonwealth and the payment of $201.8 million of accrued interest of loans owed by the Commonwealth and certain of its agencies to the Bank.

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 that accordingly, no additional allowance for losses for loans to the public sector is needed at June 30, 2009.

During 2009, the Bank and a municipality entered into a restructuring agreement whereby the Bank restructured a disputed loan of $11.9 million, that had been fully reserved in 2008, and granted a new loan for $9.6 million with a fixed interest rate of 4.50% and maturing on July 1, 2016. The restructured loan is repayable from the municipality sales tax. At June 30, 2009, management determined that the restructured loan should be fully reserved until the borrower meets the revised terms for at least one year after the restructuring.

Also during 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 obtained recent appraisals of the properties close to June 30, 2009, which resulted in a decrease in the appraised values of certain of such properties, net of estimated selling costs, of approximately $27 million, which was 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 (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 to cover the unrealized deficiency before the established period and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth is needed at June 30, 2009.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank 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 $457 million at June 30, 2009 of which approximately $205 million are mortgage loans for low and moderate-income housing units and approximately $252 million are for tourism projects.

Private sector loans classified as non-accrual amounted to approximately $171.5 million at June 30, 2009. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $4.9 million in 2009. No interest was collected on these loans for the year ended June 30, 2009.

The following is a summary of private sector loans of the enterprise funds considered to be impaired as of June 30, 2009, 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	$175	$ -	$ -	$ 175
Requiring an allowance for loan losses	264	46,244	125,000	171,508
Total recorded investment in impaired loans	$439	$46,244	$125,000	$171,683
Related allowance for loan losses	$264	$ 7,627	$ 52,424	$ 60,315
Average recorded investment in impaired loans	450	50,428	10,417	61,295
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, 2009 (in thousands):

		Enterprise Funds			
	Governmental Activities	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 613	$12,124	$ 5,423	$24,481	$42,641
Provision (credit) for loan losses	(87)		47,001	(540)	46,374
Net recoveries (charge-offs)	3	(2,310)	-	(3,458)	(5,765)
Balance — end of year	$ 529	$ 9,814	$52,424	$20,483	$83,250

During the year ended June 30, 2009, the Housing Finance Authority sold approximately $33.5 million of single family mortgage loans receivable. The net proceeds from the sale of these loans amounted to approximately $34.0 million, including $156,000 of accrued interest. The net gain on the sale of these loans was approximately $335,000.

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 a one year extension up to December 31, 2009.

Significant progress has been made to date in the construction activities and in the case management of the Program. Notwithstanding, there is still uncertainty about the compliance with the scheduled date of completion. 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 $24.8 million due from the federal government.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2009, consisted of the following:

		Enterprise Funds		
	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Total
Residential (1–4 units)	$ 192,941	$ -	$3,834,144	$ 4,027,085
Commercial	6,764,607	202,153,679		208,918,286
Valuation allowance	(6,438,081)	(1,194,035)	(106,028)	(7,738,144)
Total real estate held for sale	$ 519,467	$200,959,644	$3,728,116	$205,207,227

Reconciliation to the government-wide statement of net assets:

Unrestricted real estate available for sale	$203,396,509
Restricted real estate available for sale	1,810,718
Total	$205,207,227

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2009:

	Governmental Activities	GDB Operating Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 20,105,732	$ -	$ 431,943	$ 20,537,675
Provision (credit) for possible losses	77,652	1,194,035	(121,898)	1,149,789
Write-offs	(13,745,303)	-	(204,017)	(13,949,320)
Balance — end of year	$ 6,438,081	$1,194,035	$ 106,028	$ 7,738,144

During 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 obtained recent appraisals of the properties close to June 30, 2009, which resulted in a decrease in the appraised values of certain of such properties net of estimated selling costs, of approximately $27 million, which was recorded as a reduction of the carrying value of the properties (included within real state available for sale in the accompanying statement of net assets) and a receivable from the Commonwealth (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 to cover the unrealized deficiency before the established period and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth is needed at June 30, 2009.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets not being depreciated — land	$10,970,990	$ -	$(8,125,985)	$ 2,845,005
Capital assets being depreciated:				
Building	8,988,048			8,988,048
Leasehold improvements	3,994,861	40,249	(17,144)	4,017,966
Information systems	3,322,143	541,823	(655,439)	3,208,527
Office furniture and equipment	2,851,922	201,280	(330,925)	2,722,277
Software	3,798,777	178,630	(503,762)	3,473,645
Vehicles	207,915	51,458	(36,248)	223,125
Total capital assets being depreciated	23,163,666	1,013,440	(1,543,518)	22,633,588
Less accumulated depreciation and amortization for:				
Building	(1,685,258)	(224,701)		(1,909,959)
Leasehold improvements	(1,005,286)	(370,178)	17,144	(1,358,320)
Information systems	(1,562,381)	(785,200)	656,637	(1,690,944)
Office furniture and equipment	(1,471,793)	(484,546)	330,925	(1,625,414)
Software	(830,430)	(940,795)	503,762	(1,267,463)
Vehicles	(182,667)	(27,816)	36,248	(174,235)
Total accumulated depreciation and amortization	(6,737,815)	(2,833,236)	1,544,716	(8,026,335)
Total capital assets being depreciated — net	16,425,851	(1,819,796)	1,198	14,607,253
Total capital assets — net	$27,396,841	$(1,819,796)	$(8,124,787)	$17,452,258

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 $154.6 million in 2009.

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

Carrying amount at June 30, 2009	$ 859,053,110
Maximum amount outstanding at any month-end	1,176,712,579
Average amount outstanding during the year	848,085,991
Weighted average interest rate for the year	3.49%
Weighted average interest rate at year-end	3.05%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2009:

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$687,200,000	$4,863,313,678	$4,691,460,568	$859,053,110

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, 2009, approximately $419 million of securities sold under agreements to repurchase mature within one year and $440 million mature during fiscal year 2011.

11. COMMERCIAL PAPER

The Bank issued commercial paper in the U.S. taxable and tax-exempt commercial paper markets, in the Eurodollar commercial paper market, and to corporations that have grants of tax exemption under the Commonwealth's industrial incentives laws. Commercial paper represented unsecured obligations of the Bank.

The following information corresponds to commercial paper:

Carrying amount at June 30, 2009	$ -
Maximum amount outstanding at any month-end	500,000
Average amount outstanding during the year	421,917
Weighted average interest rate for the year	195.00%
Weighted average interest rate at year-end	- %

The following summarizes the commercial paper activity for fiscal year 2009:

	Beginning Balance	Issuances	Maturities	Ending Balance	Due Within One Year
GDB Operating Fund	$500,000	$1,500,000	$2,000,000	$ -	$ -

12. 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, 2009:

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

At June 30, 2009, 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.

13. 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, 2009 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	$4,962,005	$ -	$ -	$(150,768)	$4,811,237	$ -

	Beginning Balance	Issuances — Net	Reductions	Ending Balance	Due within One Year
Business-type activities:					
GDB Operating Fund:					
Adjustable Refunding Bonds	$ 267,000,000	$ -	$(267,000,000)	$ -	$ -
Senior Notes 2006 Series B	594,020,000		(92,915,000)	501,105,000	72,450,000
Senior Notes 2006 Series C	81,960,000			81,960,000	
Senior Notes 2008 Series A		944,533,000	(200,000,000)	744,533,000	
Senior Notes 2008 Series B		285,467,000		285,467,000	
Senior Notes 2009 Series A		250,000,000		250,000,000	
Senior Notes 2009 Series B		200,000,000		200,000,000	
Add unamortized premium — net	12,849,433		(3,189,129)	9,660,304	209,611
Total GDB Operating Fund	955,829,433	1,680,000,000	(563,104,129)	2,072,725,304	72,659,611
Housing Finance Authority:					
Mortgage Trust III	990,663,874		(43,270,000)	947,393,874	43,060,000
Revenue bonds and mortgage-backed certificates:					
Single Family Mortgage Revenue Bonds, Portfolio IX	124,450,000		(5,160,000)	119,290,000	2,350,000
Single Family Mortgage Revenue Bonds, Portfolio X	224,595,000		(144,565,000)	80,030,000	1,285,000
Single family Mortgage Revenue Bonds, Portfolio XI	200,000,000			200,000,000	3,020,000
Homeownership Mortgage Revenue Bonds 2000	56,235,000		(3,815,000)	52,420,000	1,130,000
Homeownership Mortgage Revenue Bonds 2001	60,975,000		(5,365,000)	55,610,000	1,295,000
Homeownership Mortgage Revenue Bonds 2003	28,080,000		(2,360,000)	25,720,000	615,000
Mortgage-Backed Certificates 2006 Series A	142,633,975		(10,552,160)	132,081,815	11,264,136
Total revenue bonds and mortgage-backed certificates	836,968,975	-	(171,817,160)	665,151,815	20,959,136
Subtotal	1,827,632,849		(215,087,160)	1,612,545,689	64,019,136
Notes payable to GDB		1,597,006		1,597,006	
Plus unamortized premium	600,856		(49,162)	551,694	
Less unaccreted discount and deferred loss on refundings	549,031,082		(34,525,858)	514,505,224	
Total Housing Finance Authority	1,279,202,623	1,597,006	(180,610,464)	1,100,189,165	64,019,136
Tourism Development Fund:					
Participation agreement payable	26,000,000			26,000,000	
Notes payable to GDB	213,934,464	32,449,592	(106,204)	246,277,852	8,400,000
Total Tourism Development Fund	239,934,464	32,449,592	(106,204)	272,277,852	8,400,000
Public Finance Corporation — note payable to GDB	103,936,077		(2,612,187)	101,323,890	2,323,891
Total	2,578,902,597	1,714,046,598	(746,432,984)	3,546,516,211	147,402,638
Less intrafund eliminations	(446,816,040)	(34,046,598)	(7,794,986)	(488,657,624)	(10,723,891)
Total business-type activities	$2,132,086,557	$1,680,000,000	$(754,227,970)	$3,057,858,587	$136,678,747

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, 2009, are as follows:

Year Ending June 30,	GDB Operating Fund Business-Type Activities Principal	Interest
2010	$ 72,450,000	$113,468,275
2011	63,295,000	110,112,796
2012	878,065,000	92,863,504
2013	66,205,000	69,882,921
2014	414,285,000	57,859,921
2015–2019	568,765,000	150,514,867
Total	$2,063,065,000	$594,702,284

Year Ending June 30,	Housing Finance Authority Governmental Activities Principal	Interest	Business-Type Activities Principal	Interest
2010	$ -	$ 256,831	$ 64,019,136	$ 33,931,424
2011		256,831	62,081,192	33,121,749
2012		256,831	62,165,354	32,182,523
2013		256,831	61,633,154	31,302,906
2014	95,757	217,922	57,880,850	30,358,105
2015–2019	524,890	1,012,614	273,109,288	136,829,612
2020–2024	449,503	781,392	180,328,484	108,912,131
2025–2029	1,584,006	614,649	633,888,231	77,521,138
2030–2034	2,157,081	83,555	137,125,000	40,939,711
2035–2039			73,815,000	12,325,286
2040–2044			6,500,000	147,604
Total	$4,811,237	$3,737,456	$1,612,545,689	$537,572,189

Year Ending June 30,	Tourism Development Fund Business-Type Activities Principal	Interest
2010	$ -	$ 1,977,083
2011		1,977,083
2012		1,982,500
2013		1,977,083
2014		1,977,083
2015–2019	26,000,000	7,913,750
Total	$26,000,000	$17,804,582

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, 2009 each July 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, 2009 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
GDB Senior Notes :		
Series 2006 B — December 1 until December 1, 2017	4.125%-5.00%	$ 508,460,904
Series 2006 C — January 1, 2015	5.25	84,264,400
Series 2008 A — Each February 1 from 2012 to 2019	5.50–6.50	744,533,000
Series 2008 B — Each February 1 from 2012 to 2019	5.50–6.50	285,467,000
Series 2009 A — Each February 1 from 2012 to 2019	5.50–6.50	250,000,000
Series 2009 B — Each February 1 from 2012 to 2019	5.50–6.50	200,000,000
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2011	Zero Coupon	62,439,937
Each July 1 and January 1 until January 1, 2021 January 1, 2026	Zero Coupon	245,102,596
Single Family Mortgage Revenue Bonds — Portfolio IX		
Each December 1 and June 1 until December 1, 2012	3.85-5.60	119,290,000
Single Family Mortgage Revenue Bonds — Portfolio X		
Each December 1 and June 1 until December 1, 2037	4.15–5.65	80,030,000
Single Family Mortgage Revenue Bonds — Portfolio XI		
Each December 1 and June 1 until December 1, 2039	2.60–5.45	200,000,000
Mortgage-Backed Certificates, 2006 Series A		
June 29, 2026 through August 29, 2030	2.955–6.56	118,520,750
Homeownership Mortgage Revenue Bonds 2000 Series —		
Each June 1 and December 1 until December 1, 2032	4.25–5.20	52,420,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.35–4.70	5,540,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.45–5.50	50,070,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	3.2–4.00	3,285,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.375–4.875	22,435,000
Total		$ 3,031,858,587

Adjustable 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. The Bank expects to reissue these bonds at a fixed rate during fiscal year 2010.

GDB Senior Notes 2008, Series A — On December 30, 2008, the Bank issued $944,533,000 of Senior Notes, 2008 Series A, (the "2008 Series A Notes"). The 2008 Series A Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates

ranging from 5.50% to 6.50%. The 2008 Series A Notes 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, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2008, Series B — On January 8, 2009, the Bank issued $285,467,000 of Senior Notes, 2008 Series B, (the "2008 Series B Notes"). The 2008 Series B Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2008 Series B Notes 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, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2009, Series A — On January 29, 2009, the Bank issued $250,000,000 of Senior Notes, 2009 Series A, (the "2009 Series A Notes"). The 2009 Series A Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series A Notes 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, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

GDB Senior Notes 2009, Series B — On June 30, 2009, the Bank issued the $200,000,000 of Senior Notes, 2009 Series B, (the "2009 Series B Notes"). The 2009 Series B Notes consist of term notes maturing on various date from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series B Notes 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, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

The Housing Finance Authority has refunded/in-substance defeased certain bonds by placing internally generated moneys or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded or in-substance defeased bonds. Accordingly, the trust account assets and the related refunded/defeased bonds are not included in the Housing Finance Authority's financial statements. During 2009, $51 million of bonds that were considered defeased were repaid. At June 30, 2009, there are no bonds outstanding that are considered defeased.

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 Note bears interest at a fixed rate of 7.5%, which is payable on a quarterly basis, and originally matured on April 9, 2009. 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, 2009.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2009 follows:

Balance — beginning of period	$ 4,816,117
Additions	3,184,310
Reductions	(2,437,045)
Balance — end of period	$ 5,563,382

The activity for compensated absences, included within accounts payable and accrued liabilities, during the year ended June 30, 2009 follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$2,449,919	$2,445,605	$2,330,888	$2,564,636	$1,718,306
Sickness	2,438,283	1,448,994	1,227,590	2,659,687	319,162
Total	$4,888,202	$3,894,599	$3,558,478	$5,224,323	$2,037,468

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

14. 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, 2009, the Housing Finance Authority had restricted net assets for such purposes of approximately $58.6 million.

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, 2009, 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	$ 79,242
Private sector	22,638
Total	$ 101,880
Standby letters of credit:	
Public sector	$ 632,683
Private sector	109,090
Total	$ 741,773
Commitments to extend credit — Public sector	$2,253,718

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2009:

	Beginning Balance	Provision	Payments	Ending Balance	Due Within One Year
GDB Operating Fund	$ 1,000,000	$ -	$ -	$ 1,000,000	$ -
Tourism Development Fund	1,270,052	6,010,948		7,281,000	
Development Fund	843,343	2,892,047	(645,516)	3,089,874	1,747,801
Total	$3,113,395	$8,902,995	$(645,516)	$11,370,874	$1,747,801

16. RETIREMENT SYSTEM

Defined Benefit Pension Plan — The Employees' Retirement System of the Commonwealth of Puerto Rico and its Instrumentalities (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 under 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, 2009 amounted to approximately $904,000 and $1,087,000 respectively. The Bank's contributions during the years ended June 30, 2009, 2008, and 2007 amounted to approximately $1,946,000, $1,982,000, and $1,787,000, 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, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities. 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 sector. 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.

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 2009 amounted to approximately $2.9 million. At June 30, 2009, the minimum annual future rentals under noncancelable leases are approximately as follows:

Year Ending June 30,	Amount
2010	$ 2,263,000
2011	2,278,000
2012	1,850,000
2013	1,850,000
2014	1,850,000
Thereafter	42,550,000
Total	$52,641,000

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, 2009, the Bank has contributed $15.6 million to the Cooperative Development Investment Fund, $985,000 million of which were contributed during the year ended June 30, 2009.

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, 2009, outstanding guarantees amounted to approximately $14,747,000, and the allowance for losses on guarantees amounted to approximately $3.1 million.

Custodial Activities of Enterprise Funds — At June 30, 2009, the Housing Finance Authority was custodian of approximately $192,000 in restricted funds of CRUV. As of June 30, 2009, 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, 2009, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately $643,000.

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, 2009, the principal balance of the mortgage loans serviced for others is approximately as follows:

Popular Mortgage, Inc.	$ 128,000
R-G Mortgage, Inc.	1,548,000
CRUV or its successor without guaranteed mortgage loan payments	49,000
Total	$1,725,000

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, 2009 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.

During fiscal years 2008 and 2009, the Sales Tax Corporation issued several bonds whose net proceeds were used, among other, for the payment and retirement of a portion of the extra-constitutional debt owed to the Bank and to the Public Finance Corporation. In total, the outstanding balance of the Bonds has been reduced by approximately $2.4 billion.

Certain bonds of the Housing Finance Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2009, 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	$9,222,065
Restricted liabilities (no-commitment debt)	8,013,477
Restricted fund balance	$ 1,208,588
Excess of fund expenses over revenues	$ 160,346

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 $572 million at June 30, 2009.

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 $368,620,000 at June 30, 2009. 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 $118,532,083 for the year ended June 30, 2009. This amount includes $4,303,112 of administrative fees for services performed as contract administrator, which are reimbursed by the U.S. Department of Housing and Urban Development.

19. CONTRIBUTION FROM PUERTO RICO INFRASTRUCTURE FINANCE AUTHORITY

On January 14, 2009, the Legislature of the Commonwealth enacted Act No. 3 to, among other, authorize the Puerto Rico Infrastructure Financing Authority 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, $154.2 million were contributed by the Puerto Rico Infrastructure Financing Authority to the Bank during fiscal year 2009.

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, 2009, 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.

- 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, 2009:

	Reported Amount	Fair Value
	(In millions)	
Financial assets:		
Cash and due from banks	$ 26	$ 26
Federal funds sold	1,364	1,364
Deposits placed with banks	1,113	1,113
Investments and investment contracts	4,374	4,299
Loans receivable to public sector	6,228	6,208
Accrued interest receivable and other receivables	127	127
Financial liabilities:		
Demand deposits	3,187	3,187
Certificates of deposit	4,367	4,368
Certificates of indebtedness	12	12
Securities sold under agreements to repurchase	859	830
Accounts payable and accrued liabilities	63	63
Accrued interest payable	25	25
Bonds, notes and participation agreement payable	3,063	3,081

21. INTERFUND BALANCES AND TRANSFERS

The following table is a summary of the interfund balances as of June 30, 2009 between governmental funds and enterprise funds:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Enterprise fund:		
New Secure Housing Program	GDB Operating Fund	Demand deposits and accrued interest	$ 25,446
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	784,351
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Investment agreements and accrued interest	590,218
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Certificates of deposit and accrued interest	14,140,236
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Demand deposits and accrued interest	18,328
AHMSP-Stage 8	GDB Operating Fund	Investment agreements and accrued interest	14,008,526
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	GDB Operating Fund	Certificates of deposit and accrued interest	4,359,728
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	GDB Operating Fund	Demand deposits and accrued interest	54,965
The Key for your Home Program	GDB Operating Fund	Demand deposits and accrued interest	60,343
Subtotal and balance carried forward			$ 34,042,141

(Continued)

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 34,042,141
Governmental fund:	Enterprise fund:		
New Secure Housing Program	Housing Finance Authority	Reimbursement of expenditures	36,883
Other Nonmajor Funds (Special Obligation Refunding Refunding Bonds-Debt Service)	Housing Finance Authority	Reimbursement of loan originations	2,383,696
The Key for Your Home Program	Housing Finance Authority	Advances	591,748
Subtotal			3,012,327
Total			37,054,468
Enterprise fund:	Governmental fund:		
GDB Operating Fund	New Secure Housing Program	Loans payable and accrued interest	(43,515,774)
GDB Operating Fund	AHMSP-Stage 7	Loan payable and accrued interest	(52,404,062)
GDB Operating Fund	Other nonmajor funds (AHMSP-Stage 10)	Loans payable and accrued interest	(13,580,319)
GDB Operating Fund	AHMSP-Stage 9	Loans payable and accrued interest	(340,458)
Housing Finance Authority	AHMSP- Stage 7	Reimbursement of expenditures	(5,263,768)
Housing Finance Authority	New Secure Housing Program	Reimbursement of expenditures	(6,158,129)
Housing Finance Authority	HUD Programs	Reimbursement of expenditures	(1,013,195)
Total			(122,275,705)
Total internal balances — net			$ (85,221,237)

(Continued)

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Governmental fund:		
Other nonmajor funds (Special Obligation Refunding Bonds-Debt Service)	AHMSP - Stage 7	Advances	$ 13,164,714
AHMSP- Stage 8	Other nonmajor funds (AHMSP-Mortgage-Backed Certificates 2006)	Reimbursement of expenditures	31,769
Total balance among governmental funds eliminated			$ 13,196,483
Enterprise funds:	Enterprise funds:		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 7,273,044
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	36,669,677
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	11,449,848
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,359,399
Other Nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,376,527
Other Nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	18,508
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	458,077,778
Tourism Development Fund	GDB Operating Fund	Certificates of deposit and accrued interest	92,169,590
Housing Finance Authority	GDB Operating Fund	Guaranteed investment contracts and accrued interest	170,396,583
GDB Operating Fund	Housing Finance Authority	Bonds payable	139,458,876
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	246,586,657
GDB Operating Fund	Public Finance Corporation	Loans receivable and accrued interest	105,063,938
GDB Operating Fund	Housing Finance Authority	Loan receivable and accrued interest	1,614,713
Total balance among enterprise funds eliminated			$ 1,272,515,138

(Concluded)

The following table is a summary of interfund transfers for the year ended June 30, 2009:

Transfer Out	Transfer In	Transfer for	Amount
Governmental Funds: Other Nonmajor Funds (AHMSP-Stage 10)	Governmental Funds: Other nonmajor funds	Release of excess funds	$ 10,957,500
Enterprise Funds: Housing Finance Authority	Governmental Funds: Other Nonmajor Funds (AHMSP Mortgage Backed Certificates)	Subsidy payments	2,110,392
Governmental Funds: AHMSP Stage 9	Enterprise Funds: Housing Finance Authority	Debt services payments	519,866
Other Nonmajor Funds (AHMSP-Stage 10)	Housing Finance Authority	Debt services payments	498,669
Other Nonmajor Funds (AHMSP- Stage 10)	Housing Finance Authority	Debt services payments	7,700,867
Enterprise Funds: GDB Operating Fund	Enterprise Funds: Other Nonmajor Funds (J.M.B. Institute)	Contribution	100,000

22. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit at June 30, 2009: AHMSP Stage 7, AHMSP Stage 10, and New Secure Housing Program for the amount of $50.2 million, $7.5 million and $55.3 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 and through the liquidation and transfer of net assets of the Special Obligations Returning Bonds – Debt Service fund (see Note 23).

23. SUBSEQUENT EVENTS

On August 21, 2009, the Board of Directors of the Housing Finance Authority authorized to liquidate the Special Obligations Refunding Bonds - Debt Service fund and transfer its net assets to the AHMSP Stage 7 fund. The Authority will use the proceeds to partially repay the amounts due to the Bank.

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[FORM OF BOND COUNSEL OPINION OF O'NEILL & BORGES]

July , 2010

Government Development Bank for Puerto Rico
San Juan, Puerto Rico

Ladies and Gentlemen:

We have examined Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, creating Government Development Bank for Puerto Rico ("Government Development Bank") as a public corporation and a governmental instrumentality of the Commonwealth of Puerto Rico.

We have also examined certified copies of an Indenture, dated February 17, 2006, by and between Government Development Bank and Banco Popular de Puerto Rico, as trustee (the "Trustee"), as amended, most recently by Supplement Number Eight to the Indenture, dated July , 2010 (collectively, the "Indenture"); the resolution adopted by the Executive Committee of the Board of Directors of Government Development Bank on July 23, 2010 (the "Resolution"), authorizing the issuance and delivery of the Notes mentioned below; and other proofs submitted relative to the authorization, issuance and sale of

$1,448,741,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
Senior Notes, 2010 Series A

(the "Notes"). The Notes will bear interest at such rates, will be payable on such dates, will mature in such principal amounts and will be subject to redemption prior to maturity, all as set forth in the Resolution.

We have also examined one of said Notes as executed and authenticated.

From such examination, we are of the opinion that:

1. Said Act No. 17, as amended, has been validly enacted and is in full force and effect, and Government Development Bank is a duly constituted and existing public corporation and governmental instrumentality of the Commonwealth of Puerto Rico.

2. The Resolution has been validly and legally adopted.

3. The Indenture has been duly executed and delivered by Government Development Bank.

4. The Notes have been duly authorized and issued.

5. The Notes are valid and binding obligations of Government Development Bank.

6. The Notes do not constitute a debt of the Commonwealth of Puerto Rico, any of its public instrumentalities (other than Government Development Bank) or any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico, any of its public instrumentalities (other than

Government Development Bank) nor any of such municipalities or other political subdivisions are liable thereon.

7. Based on the laws of the Commonwealth of Puerto Rico now in force:

a. Interest on the Notes is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code").

b. The Notes are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended.

c. The transfer of the Notes by gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of Puerto Rico at the time the gift is made. The transfer of the Notes as a result of death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (i) a resident of Puerto Rico and (ii) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico.

d. Gain recognized from the sale or exchange of a Note will be subject to income tax under the P.R. Code to taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of Puerto Rico.

e. The Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1112(f)(2)(A) of the P.R. Code applicable to certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1102 of the P.R. Code available to corporations and partnerships that have a certain percentage of their net income invested in obligations of instrumentalities of Puerto Rico and certain other investments.

f. Interest on the Notes constitutes "industrial development income" under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Tax Incentives Act of 1987, the Puerto Rico Tax Incentives Act of 1998, and the Economic Incentives for the Development of Puerto Rico Act, as amended (collectively, the "Acts"), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the Notes with "eligible funds," as such term is defined in the Acts.

Prospective owners of the Notes, including but not limited to financial institutions, should be aware that ownership of the Notes may result in having a portion of their interest and other expenses attributable to interest on the Notes disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.

8. In connection with paragraph (9) below, about certain United States tax consequences arising from the ownership of, receipt or accrual of interest on, or disposition of the Notes, be advised that pursuant to Internal Revenue Service Circular No. 230:

a. This opinion was not intended or written to be used, and cannot be used by any taxpayer, for purposes of avoiding penalties that may be imposed on the taxpayer by the U.S. Internal Revenue Service;

b. This opinion was written to support the promotion and marketing of the Notes; and

c. Each prospective purchaser of the Notes should seek tax advice from an independent tax advisor based on its particular circumstances.

9. Based on the provisions of the United States Internal Revenue Code of 1986, as amended (the "U.S. Code") now in force:

a. Interest on the Notes received by, or "original issue discount" (within the meaning of the U.S. Code) accrued to, a corporation organized under the laws of Puerto Rico is not subject to income taxation under the U.S. Code provided such interest or "original issue discount" is not effectively connected, or treated as effectively connected, with or attributable to the conduct of a trade or business within the United States by such corporation.

Notwithstanding the foregoing, interest received by a Puerto Rico corporation may be subject to taxation in the hands of the owners of such corporation under the U.S. Code special rules for the taxation of shareholders of foreign corporations that qualify as "controlled foreign corporations," "personal holding companies," or "passive foreign investment companies" as such terms are defined by the U.S. Code.

b. Interest on the Notes received by, or "original issue discount" (within the meaning of the U.S. Code) accrued to, an individual who is a bona fide resident of Puerto Rico, within the meaning of Section 937 of the U.S. Code, during the entire taxable year in which such interest is received or "original issue discount" is accrued will constitute gross income from sources within Puerto Rico and, therefore, is excludable from gross income for purposes of the U.S. Code pursuant to Section 933(1) thereof. In addition, for U.S. federal income tax purposes, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico U.S. Holder's gross income.

In general terms, in order to be treated as a "bona fide resident of Puerto Rico," Section 937(a) of the U.S. Code requires that the individual (i) be present in Puerto Rico for at least 183 days in each taxable year, (ii) not have a tax home outside Puerto Rico during any part of the taxable year, and (iii) not have a closer connection to the United States or a foreign country. Prospective investors should consult their tax advisers with respect as to whether they qualify as "bona fide residents of Puerto Rico" for Section 933 purposes.

c. Interest on the Notes is not excludable from the gross income of the recipient thereof for federal income tax purposes under Section 103(a) of the U.S. Code. Prospective holders of the Notes are advised that the U.S Code and the regulations issued thereunder provide extensive rules as to the tax treatment of the income generated by debt instruments such as the Notes if purchased with original issue discount, market discount or amortizable premium.

d. A person that is subject to income tax under the U.S. Code on its worldwide income will generally be subject to federal income tax on any gain realized upon the sale or exchange of the Notes. Gain on the sale or exchange of the Notes by an individual who is a "bona fide resident of Puerto Rico" during the entire taxable year of the sale and during the ten years preceding the year of the sale will constitute Puerto Rico source income and, therefore, qualify for the exclusion provided in Section 933(1) of the U.S. Code, provided (i) such Notes do not constitute inventory in the hands of such individual, (ii) if the Notes were owned before the individual became a bona fide resident of Puerto Rico, that for any of the 10 years preceding the taxable year for which the source of the gain must be determined, the individual was not a resident of the United States (other than a bona fide resident of Puerto Rico) and (iii) the gain is not attributable to an office or fixed place of business of such individual in the United States.

In addition, a corporation organized under the laws of the Commonwealth of Puerto Rico generally will not be subject to federal income tax on a gain realized on the sale or exchange of the Notes, provided such gain is not effectively connected, or treated as effectively connected, with the conduct

of a United States trade or business and such corporation is not treated as a domestic corporation for purposes of the U.S. Code.

e. The transfer of the Notes by death or gift will not be subject to estate or gift tax under the U.S. Code in the case of decedents or donors who, at the time of death or gift, are (i) residents of Puerto Rico and (ii) (x) United States citizens who acquired such citizenship solely by reason of birth or residence in Puerto Rico or (y) not United States citizens.

The preceding opinion of certain material federal income tax consequences of the purchase, ownership and disposition of the Notes is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates) or possible differing interpretations. It deals only with Notes held as capital assets within the meaning of Section 1221 of the U.S. Code and does not address all of the tax consequences relevant to investors that are subject to special treatment under the United States federal income tax laws, such as financial institutions, life insurance companies, retirement plans, regulated investment companies, persons who hold transition bonds as part of a "straddle," a "hedge" or a "conversion transaction," persons that have a functional currency other than the U.S. dollar, investors in pass-through entities, and tax-exempt organizations. This opinion does not deal with holders other than investors who purchase the Notes in the initial offering at the first price at which a substantial amount of such substantially identical Notes are sold to the general public (except where otherwise specifically noted).

Our opinion regarding the tax consequences under Puerto Rico law and the U.S. Code arising from ownership of, receipt or accrual of interest on, or disposition of the Notes is limited to the above. We do not express any opinion as to the laws of any state or jurisdiction other than the laws of the Commonwealth of Puerto Rico and the federal tax laws of the United States of America applicable to Puerto Rico. We also do not express an opinion as to the tax consequences arising from the beneficial ownership of a Note by anyone other than a U.S. Holder, a Puerto Rico U.S. Holder, or a Puerto Rico Corporation.

Very truly yours,

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