COMMONWEALTH OF
PUERTO RICO
Government Development Bank
for Puerto Rico

GDB

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2013

June 30, 2013

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

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(PREPARED BY: COMPTROLLERSHIP AREA)

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Government Development Bank for Puerto Rico
Comprehensive Annual Financial Report
As of and For the Year Ended June 30, 2013

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

Our Mission Statement

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

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

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

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

Our Core Values

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

Strategic Objectives

The Bank's strategic objectives are:

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

COMMONWEALTH OF
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for Puerto Rico

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INTRODUCTORY SECTION

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

COMMONWEALTH OF
PUERTO RICO
Government Development Bank
for Puerto Rico

April 30, 2014

Honorable Alejandro J. García Padilla
Governor of Puerto Rico

Board of Directors of the Government
Development Bank for Puerto Rico

Dear Governor and Board of Directors:

I am pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Government Development Bank for Puerto Rico and subsidiaries (the "Bank" or "GDB") for the fiscal year ended June 30, 2013.

This CAFR was prepared in accordance with the standards set forth by the Government Finance Officers Association ("GFOA") for the Certificate of Achievement for Excellence in Financial Reporting (the "Certificate of Achievement"). This Certificate of Achievement is the highest form of recognition in government accounting and financial reporting, and its attainment represents a significant accomplishment for a government entity and its management team. In the past fiscal year, as during the last 19 years, the Bank was awarded with a Certificate of Achievement from the GFOA. We understand this CAFR meets the Certificate Program requirements and it is been submitted to the GFOA for the subject award review process.

The accuracy of the data, the completeness and fairness of the presentation, and all disclosures are solely the responsibility of the Bank's management. This CAFR includes all necessary disclosures to enable the reader to gain an adequate understanding of the Bank's financial condition and results of operations as well as its activities in the subject fiscal year.

INTERNAL CONTROLS

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

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GDB GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

THE REPORTING ENTITY

The Bank is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act Number 252 of May 13, 1942 with the mission of promoting the social and economic development of the People of Puerto Rico. With the adoption of Act Number 272 of May 15, 1945, the Bank was further authorized to act as the fiscal agent and financial advisor of the Commonwealth and its instrumentalities. Finally, Act Number 17 of September 1948 provided for the Bank's charter and defined its duties and powers.

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

The Bank's primary mission is to maintain the fiscal stability and promote the economic prosperity of the Commonwealth. In furtherance of that mission, the Bank has created the following components for various specific purposes: Puerto Rico Housing Finance Authority (the "Housing Finance Authority"), Puerto Rico Tourism Development Fund (the "Tourism Development Fund"), Puerto Rico Development Fund (the "Development Fund"), Puerto Rico Public Finance Corporation (the "Public Finance Corporation"), Government Development Bank for Puerto Rico Capital Fund (the "Capital Fund"), José M. Berrocal Financial and Economics Institute (the "JMB Institute"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation").

THE BANK'S FISCAL ROLE

Since its beginnings, the Bank has served the dual role of acting as financial advisor and fiscal agent for the Commonwealth, its municipalities, and public corporations in connection with the issuance of bonds and notes, and to make loans and advances to these governmental entities. This dual role has to be exercised consistent with its ultimate mission of promoting Puerto Rico's economic development.

In terms of financing activities, the Bank may approve 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 government entities. However, the Bank generally does not provide financing to any government entity of the Commonwealth unless GDB reasonably believes that the borrower will have sufficient resources, including the ability to issue bonds or notes or otherwise borrow funds, to repay such loan. GDB, however, has provided financing in the past, to the extent permitted by law, to government entities that do not have sufficient independent resources to cover operating expenses. While Act 164-2011, as amended, imposes certain important restrictions on the ability of the Bank to issue certain loans to the Commonwealth and its instrumentalities, 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 GDB's financial condition and liquidity.

In recent years, the Bank has actively used its fiscal authority to identify those agencies, public corporations, and municipalities whose financial condition is critical and that, if unattended, would further affect the Commonwealth's financial stability. In order to exercise its power and to adequately manage its risk, the Bank has entered into Fiscal Oversight Agreements ("FOA") with several agencies and public corporations. Through these FOA, the Bank has required the implementation of financial controls, expense reductions programs, and operational efficiency plans. Also, the Bank is able to condition current and future financing agreements to these government agencies' compliance with the terms and conditions set forth in the FOA. Ultimately, the goal of these FOA is to protect and improve the fiscal and financial health of the public corporations, comply with current laws and regulations, maximize the utility of present infrastructure, and minimize the need of future increases in tariffs or other charges to households and businesses in Puerto Rico.

SIGNIFICANT EVENTS AFFECTING THE BANK AND MEASURES ADOPTED BY THE BANK'S MANAGEMENT AND THE BOARD OF DIRECTORS IN LINE WITH THE CURRENT ADMINISTRATION PUBLIC POLICY[1]

Calendar 2013

Adoption of Comprehensive Reform of Commonwealth Employees Retirement System, Teachers Retirement System and Judiciary Retirement System.

On April 4, 2013, the Governor of the Commonwealth signed Act 3-2013. This Act made comprehensive changes to the current pension structure of the Employees Retirement System of the Commonwealth of Puerto Rico ("ERS") and its instrumentalities. As of June 2012, the funding ratio of the ERS was 4.5% and without meaningful reform, it was expected that ERS' net assets would have been depleted in fiscal year 2014. Along with an annual appropriation from the Commonwealth's general fund and other substantial changes, it is projected that gross assets of the Employees ERS will not be depleted. On June 24, 2013, the Supreme Court of Puerto Rico issued an opinion which upheld the constitutionality of Act 3-2013.

On December 24, 2013, the Governor signed into law Act 160-2013 ("Act 160") and Act 162-2013 ("Act 162"), which enacted comprehensive reforms of the Teachers Retirement System ("TRS") and the Judiciary Retirement System ("JRS"). These retirement systems, together with the ERS, constitute the three largest public employee retirement systems that are funded primarily with budget appropriations from the General Fund. As in the case of the reform adopted for the ERS, the reform of the TRS contemplates a series of significant changes which play a critical role over time in supporting the ability of the TRS to pay benefits, which included, among others: (i) freezing the retirement benefits that participants will have accrued under the current defined benefit system as of July 31, 2014; (ii) replacing this defined benefit going

[1] For an in-depth review of the financial and operating information about the Commonwealth of Puerto Rico, see FINANCIAL INFORMATION AND OPERATING DATA REPORTS (October 18, 2013 and February 18, 2014),*available at* http://www.gdb-pur.com/investors_resources/publicationsreports/CommonwealthFIODR/CommonwealthReport.pdf.

forward with a defined contribution plan; (iii) increasing the retirement age of participants; (iv) increasing employee contributions; and (v) eliminating and reducing certain benefits granted to future and existing retirees under special laws. It also provides for certain additional employer contributions by the Commonwealth.

The constitutionality of Act 160 was challenged in several lawsuits brought by participants of the System. On April 11, 2014 the Supreme Court declared certain sections of Act 160-2013 unconstitutional while maintaining the constitutionality of the following: (i) all changes made to the benefit structure apply to future participants that are hired after July 31, 2014; (ii) elimination of special laws benefits for participants that retire on or after August 1, 2014; and (iii) reduction of special laws benefits to current retirees as of July 31, 2014. Currently, the Supreme Court's decision is under the Government's evaluation and analysis in order to determine the course of action to undertake.

The reform of the JRS establishes a new hybrid retirement system for judges appointed after July 1, 2014, which includes both a defined benefit and a defined contribution component. The legislation also increases employee contributions by judges appointed on or before June 30, 2014 by 2.0% of salary, and establishes that those appointed after July 1, 2014 must contribute 12% of their salary. The legislation also eliminates the Christmas, summer and prescription medicines bonuses that were granted pursuant to separate laws. On February 21, 2014, an opinion was entered by the Supreme Court, sustaining the constitutionality of Law 162-2013, but to have prospective effects, upon those judges entering the judicial system after December 23, 2013, the date of the enactment of the law.

New Revenue Raising Measures for the Commonwealth's General Fund

During the first six months of calendar 2013, the Commonwealth of Puerto Rico adopted initiatives to materially reduce its operational deficit. Towards that end, legislation was adopted to increase the amount of revenue projected to be received during fiscal year 2014 and administrative actions have been taken to reduce tax evasion. For fiscal year 2014, it is the goal of the Commonwealth to reduce its deficit to at least $650 million.

On February 2013, the Commonwealth amended Act 154-2010, which imposes an excise tax on the acquisition of certain manufacturing products produced and services rendered in Puerto Rico. This act extended the effective period of the excise tax until December 31, 2017 and reset the excise tax rate to a fixed 4% commencing on July 1, 2013.[2] Also, on June 2013, the Commonwealth approved substantial changes to its laws to broaden the tax base and increase its revenues.[3] Finally, the Treasury Department has adopted several initiatives to reduce tax evasion and strengthen the agency's fiscal oversight. Among other measures, the Treasury Department

[2] Act 2-2013 amended Act 154-2012.

[3] *See* Act 31-2013, Act 40-2013, Act 41-2013, Act 42-2013, Act 43-2013, Act 44-2013, Act 45-2013, Act 46-2013.

has referred tax evasions cases to the Department of Justice, hired additional fiscal oversight personnel, and launched a media campaign against evasion of the Sales and Use tax.[4]

As a result of all previous legislative and administrative measures, the Treasury has announced that as of March 31, 2013, actual revenues are $269.1 million over fiscal year 2013 and $86.3 million over 2014 fiscal year estimates.[5]

New Revenue Raising Measures for Public Corporations

The Commonwealth has adopted meaningful measures to make public corporations fully independent and eliminate the need of subsidies from the Commonwealth's general fund or lines of credit from the GDB to finance their operational budgets. First, using the legal mechanisms provided by the Commonwealth's Public Private Partnership Act, the Puerto Rico Ports Authority (PRPA) closed a transaction that permitted the concession of the Luis Muñoz Marín International Airport to Aerostar Airport Holdings, LLC (a consortium created by *Grupo Aeroportuario del Sureste* and Highstar Capital).[6] This transaction is expected to provide financial stability to PRPA and, at the same time, promote the investment of more than $1.4 billion on infrastructure projects on the Airport through the next 40 years. Also, on July 15, 2013, the Puerto Rico Aqueduct and Sewer Authority ("PRASA") approved a sixty percent water rate increase (on average) that is projected to cover all of its expenses and debt service in the near future. As a result of this measure, it is now not foreseeable for the Commonwealth to appropriate funds for PRASA's operational expenses. In addition, on June 25, 2013, the Commonwealth approved legislation that provided the Puerto Rico Highway and Transportation Authority (PRHTA) with approximately $270 million in additional revenues for fiscal year 2014. It is expected that legislation will permit PRHTA to begin repaying its lines of credit with the GDB.[7]

Ratings of Commonwealth General Obligations Bonds

On December 11, 2013, Moody's Investor Services ("Moody's") placed on review for downgrade the Commonwealth's general obligations bonds ("G.O.") rating of "Baa3". Along with this action, Moody's also placed on review other ratings that are capped or linked to the G.O. rating. Moody's outlook remained negative. In their statement, Moody's articulated that their review will be concentrated on several areas of concern:

- Commonwealth's access to the long-term capital markets;
- Liquidity levels of the Commonwealth and the GDB;

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[4] *See* Department of the Treasury, Commonwealth of Puerto Rico, *Treasury Announces Measures to Strengthen Efforts Against Tax Evasion*, November 13, 2013, http://www.bgfpr.com/documents/ComureferidosJusticia ycampanaevasionIVUfinal-EngFinalFinal.pdf.

[5] *See* Department of the Treasury, Commonwealth of Puerto Rico, *Puerto Rico Treasury Reports YTD Revenues for FY2014 up $335 Million Year-Over-Year and $79 Million Above Budget Estimates*, December 12, 2013, http://www.gdb-pur.com/documents/BorradorComunicadoRecaudosNoviembre2013final-Engtrs.pdf.

[6] All documents pertinent to this transaction are available for review at the Puerto Rico Public-Private Partnerships Authority website, see http://www.p3.gov.pr/?page_id=960&lang=en.

- Further weakening of economic conditions;
- Ability to reduce the Commonwealth's budgetary deficit;
- Steps to reform the Teacher's Retirement System;
- Additional legislative action to preserve the fiscal stability of the Commonwealth.

On November 15, 2013, Fitch Ratings placed the "BBB-" ratings Commonwealth's general obligations bonds and other government entities whose bonds are guaranteed by the full faith and credit of the Commonwealth on negative watch. On March 13, 2013, Standard & Poor's Rating Services ("S&P") lowered its rating on the Commonwealth's G.O. bonds from "BBB" to "BBB-" with a negative outlook.

During calendar year 2013, the Government of the Commonwealth took numerous steps to provide fiscal stability to the Commonwealth's finances. The rating agencies acknowledged these efforts; however, they remained concerned with the ability of the Commonwealth to continue making progress on several fronts. In particular, market conditions had inhibited the Commonwealth to participate in the long-term capital markets. As a result, the rating agencies have been closely monitoring the liquidity levels of the Commonwealth and the Bank. Also, the agencies are monitoring the Commonwealth's steps to reduce the deficit beyond current estimates. Finally, although the Commonwealth's general economic conditions remain weak after eight years of recession, the agencies will closely analyze future economic indicators to validate recent signals of economic strengthening.

First Quarter of Calendar 2014

The first quarter of the current calendar year has been full of challenges as the Bank's ability to continue providing interim liquidity to the public corporations and governmental agencies and thus assisting in promoting the economic development of the Commonwealth was adversely impacted by the credit ratings received in early February.

As you are aware, the Commonwealth's recurring expenditures have exceeded its recurring revenues during the past fourteen years. During the fiscal year ended June 30, 2013, and subsequent to the end of the fiscal year, the Bank's liquidity position was adversely affected by, among other factors, a significant increase in credit spreads for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital markets access, and a significant reduction of liquidity in the local Puerto Rico capital markets. In February 2014, the credit ratings of the Commonwealth and most of its public entities (including the Bank) were lowered to non-investment grade categories. With respect to the Bank, Moody's Investors Service (Moody's) lowered its credit rating to "Ba2" and maintained its negative outlook, while Standard & Poor's Rating Services (S&P) lowered its credit rating to "BB" and maintained it in "CreditWatch" with negative implications. These factors have resulted in delays in the repayment by the Commonwealth and its public entities of their loans payable to the Bank and, at the same time, caused the Commonwealth and its public entities to rely more heavily on short-term financing from the Bank. These events negatively impacted the current and potential liquidity of the Bank.

Nonetheless, a series of measures were simultaneously taken to tackle the potential implications. The following are among the most important of such measures:

1. During March 2014, the Commonwealth completed a $3.5 billion bond issuance of Commonwealth general obligation bonds, which provided for the repayment of approximately $1.9 billion of loans made by the Bank to the Commonwealth and the Public Buildings Authority (PBA), reducing the outstanding balance of the Bank's loans to the Commonwealth by $1.7 billion and of Bank's loans to PBA by $187 million.

2. In February 2014, the Governor of the Commonwealth announced that his administration would reduce the fiscal year 2014 deficit to $650 million by proposing legislation to reduce fiscal year 2014 appropriations by $170 million, and his commitment to recommend to the Legislature the approval of a balanced budget for fiscal year 2015. These measures, if achieved, would lessen the pressure on the Bank of continuing to provide loans to the Commonwealth to finance operational deficits.

3. Pursuant to Act 40-2013 and Act 18-2014, effective February 1, 2014, the municipal sales and use tax was reduced from 1.5% to 1.0%, the Commonwealth sales and use tax was increased from 5.5% to 6.0%, and the minimum amount of the Commonwealth sales and use tax available to the Sales Tax Financing Corporation ("COFINA" by its Spanish acronym) was increased. The increase in the Commonwealth sales and use tax is expected to result in an approximately 9% increase in revenues available for COFINA debt service and coverage. In addition, Act 19-2014, adopted together with Act 18-2014, creates the Municipal Financing Corporation ("COFIM" by its Spanish acronym). COFIM is authorized to issue bonds and use other financing mechanisms to pay or refinance, directly or indirectly, all or a portion of the municipalities debt obligations payable from the municipal sales and use tax. The Commonwealth expects COFINA to issue bonds in the next fiscal year in order to take advantage of the additional capacity provided by the recent legislation and also expects COFIM to issue bonds in the next fiscal year in order to refinance certain municipal loans held by GDB.

4. Recently enacted Act 24-2014 prohibits the Bank, subject to certain limited exceptions, from making loans to public entities payable from future increases in rates, taxes or other charges. In essence, each public entity seeking financing from the Bank must demonstrate sufficient approved revenue streams to cover debt service on any new loan from the Bank. As an exception, the Bank is permitted to grant emergency loans in those cases where the Board of Directors of the Bank determines that essential public services could be affected. These loans, however, are limited to an aggregate amount not to exceed 10% of the gross income of such public entity during the previous two fiscal years up to a limit of $50 million. The Bank is also permitted to grant loans to public entities that are deemed to be not capable of repaying any principal or interest amount owed to bondholders or financial entities other than the Bank. Act 24-2014 is intended to impose fiscal discipline on the public entities, while preserving the Bank's balance sheet. In addition, such legislation (i) increases from $550 million to $2 billion the amount of the Bank obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide the Bank with greater flexibility in its role of granting interim financing to

public corporations and agencies (such guarantee can also be extended before September 1, 2014, at the discretion of the Treasury Secretary and the Bank, to certain other governmental obligations guaranteed by the Bank), (ii) grants the Bank the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants the Bank legal authority, subject to an entity's ability to request waivers under certain specified circumstances, to require such public funds (other than funds of the Legislative Branch, the Judicial Branch, the University of Puerto Rico, governmental pension plans, municipalities and certain other independent agencies) to be deposited at the Bank, which is expected to result in a more efficient management of public resources and (iii) provides a process through which OMB may assume, on behalf of the Commonwealth, the repayment from budgetary appropriations (commencing fiscal year 2017) of certain obligations owed by governmental agencies or public corporations to the Bank, up to a maximum amount of $500 million.

ECONOMIC CONDITIONS AND OUTLOOK

Economic Trends

The twentieth century marked the beginning of a rapid evolution of the Commonwealth's economy. The island's economy, severely depressed at that time, experienced a drastic and profound evolution that attracted a significant inflow of foreign capital, especially from the United States. Using an innovative approach to economic development, the Government of the Commonwealth transformed a mostly agrarian economy into an industrialized paradise for many investors. Along with the economic progress, the government also concentrated on improving the social conditions of the population. However, the twenty-first century brought a downturn of the Commonwealth's economy that has required a strong response by the Government and the private sector. This section aims to review main trends of important economic indicators of the Commonwealth's economy during the previous fiscal years using the more recent economic information available.[8]

Gross National Product

Puerto Rico continues to suffer from the effects of a recession that started on fiscal year 2006. Since that date, Puerto Rico's Gross National Product ("GNP") has decreased constantly every fiscal year, except for fiscal year 2012, when it grew by 0.1%. With the exception of that year, GNP for fiscal years 2009, 2010, and 2011 decreased by 3.8%, 3.6% and 1.6%, respectively. For fiscal year 2013, the Puerto Rico Planning Board's (the "Planning Board") preliminary report indicates a decrease of 0.03%. Finally, the Planning Board projects a further decrease of 0.8% for current fiscal year 2014.

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[8]All economic data was obtained from the Puerto Rico Planning Board and the following reports: REVISION OF ECONOMIC PROJECTIONS FOR FISCAL YEARS 2013 AND 2014 (October, 2013), available at http://gis.jp.pr.gov/Externo_Econ/Proyecciones%20Econ%C3%B3micas/Proyecciones%20Econ%C3%B3micas%20a%20Corto%20Plazo%202014%20(Revisi%C3%B3n).pdf; STATISTICAL APPENDIX, ECONOMIC REPORT TO THE GOVERNOR 2012, available at http://www.jp.gobierno.pr/Portal_JP/Portals/0/ApendiceEstadistico/Publicaci%C3%B3n%20Ap%C3%A9ndice%202012.pdf; SELECTED ECONOMIC INDICATORS OF PUERTO RICO (updated December 12, 2013), available at http://www.jp.gobierno.pr/.

Employment

As result of the recession, from fiscal year 2003 to fiscal year 2012, Puerto Rico has lost approximately 140,000 jobs. Particularly, total employment decreased during fiscal years 2009, 2010, 2011 and 2012 by 4.9%, 6.0%, 2.7% and 1.1%, respectively. In addition, the average unemployment rate rose from 11.2% in fiscal year 2008 to 15.2% in fiscal year 2012. On the other hand, the participation rate has persistently decreased, losing 6.8 percentage points since 2007. This decline is a direct result of a strong reduction of the Commonwealth's labor force, from 1.41 million workers in fiscal year 2006 to 1.22 million workers in fiscal year 2012. This represents a 13.6% reduction. On the other hand, personal income indicators reflected mixed results during previous years. However, it is projected that it will decline by approximately 1.9% for fiscal year 2014.

Manufacturing

Manufacturing continues to be the largest sector of Puerto Rico's economy in terms of Gross Domestic Product. This characteristic is a direct result of the emphasis on higher-wage, high technology industries, such as pharmaceuticals, biotechnology, and computers. For fiscal year 2012, manufacturing generated $46.1 billion, representing 45.6% of the Gross Domestic Product ("GDP"). Employment levels in the manufacturing sector have continued to decline precipitously since 2008. Since 2007, approximately 42,000 jobs have been lost, representing a 30% decline. The sector continues to suffer from the phase out of the incentives that were provided by Section 936 of the United States Internal Revenue Code which expired on December 31, 2005. However, it is important to underscore recent month-over-month growth in this sector. Since July 2013, a thousand manufacturing jobs were created and more than 2,317 jobs were committed for the next months as a result of industrial production activities of the Puerto Rico Industrial Development Company.

Service

The "service sector" is composed by the sectors of utilities, trade, transportation, warehousing, information, financial services, and the service sector properly speaking. This sector ranks second after manufacturing in its contribution to the GDP of the Commonwealth. On fiscal year 2013, this sector grew by 4.6% when compared with the previous fiscal year. In the aggregate, the service sector generated $42.5 billion, or 42.0% of GDP. The service sector components that lead this growth were retail trade, real estate and rental, professional, scientific, and technical series, management, educational and health and social services.

Construction

The construction sector represented 6.3% of the Gross National Product ("GNP") during fiscal year 2012. Compared with previous fiscal years, the sector experienced modest growth, particularly as a result of strong investment from the public sector. During that fiscal year, while permits for private construction projects grew 1.2%, permits for public projects grew at 31.1% when compared with the previous fiscal year. Overall, construction activity value during fiscal year 2012 was $1.4 billion, a 47.1% increase in comparison with fiscal year 2011. However,

critical signs of solid economic growth in the sector were absent. New home construction decreased by 8.0% during fiscal year 2012. During the same period cement sales, an important indicator of economic activity, decreased by 12.0%.

Tourism

During fiscal year 2013, tourism continued to show signs of slow growth. Currently, the tourism sector represents around 6% of the GNP. The Commonwealth's goal is to grow this sector and make tourism's economic activity represent 8% of the GNP by the end of fiscal year 2016. For fiscal year 2013, the number of persons registered in hotels and small inns, was 2,434,764, an increase of 4.9% over the number of persons registered during fiscal year 2012. At the same time, the average occupancy rate during fiscal year 2013 was 80.6%, an increase of 2.3% from fiscal year 2012. Finally, during fiscal year 2013, the average number rooms available in hotels increased by 0.4% to 12,603.

Economic Projections

On October 2013, the Puerto Rico Planning Board estimated that the GNP for fiscal year 2013 decreased by -0.03%. Also, the Board released their estimate of growth for fiscal year 2014, projecting a contraction of -0.8%. Among the factors that weighted into the forecasts of the Planning Board are the effects of the Public Employees Retirement System's reform, the potential effects of the fiscal measures adopted by the Commonwealth to close its budget deficit, a recently enacted program to promote job creation, a decline in federal spending and the volatility of oil prices.

Strategies for Economic Growth and Job Creation[9]

Since January 2013, the Government of the Commonwealth has been actively engaged in creating an articulate, innovative, aggressive, and results-driven strategy to promote economic development and create jobs. The result of that effort is the conception of a broad set of strategies, whose main focus is to protect and strengthen anchor industries in the island like manufacturing, commerce, and tourism while, at the same time, attract new global and local investment that may create a more diversified and knowledge-driven economy. The plan identifies five priority sectors that will receive special emphasis: life sciences, knowledge services, tourism, small and medium size entrepreneurs, and agriculture. Particularly to the life sciences sector, the Administration seeks to retain and expand existing Bio-Pharma operations, aggressively promote and expand the island's medical devices industry and take advantage of opportunities in the bio-agriculture research and development sector. Also, the plan articulates a more robust effort to attract new aerospace & defense projects, information technology, and telecommunications. The economic plan also envisions proceeding with the development of high-value projects that will further promote job creation.

[9]For a full description of the Economic Roadmap of the Commonwealth of Puerto Rico, *see* Commonwealth of Puerto Rico, Department of Economic Development & Commerce, *Puerto Rico-The All Star Island, Economic Roadmap* (2013), http://www.gdb-pur.com/documents/2013-11-21-EconomicRoadmap.pdf.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the hard work of all the Bank's personnel, especially those at the Comptroller's Office.

We recognize and appreciate your support and commitment during the past year.

Sincerely,

José V. Pagán Beauchamp
Acting President
Government Development Bank for Puerto Rico

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Government Development Bank for Puerto Rico

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

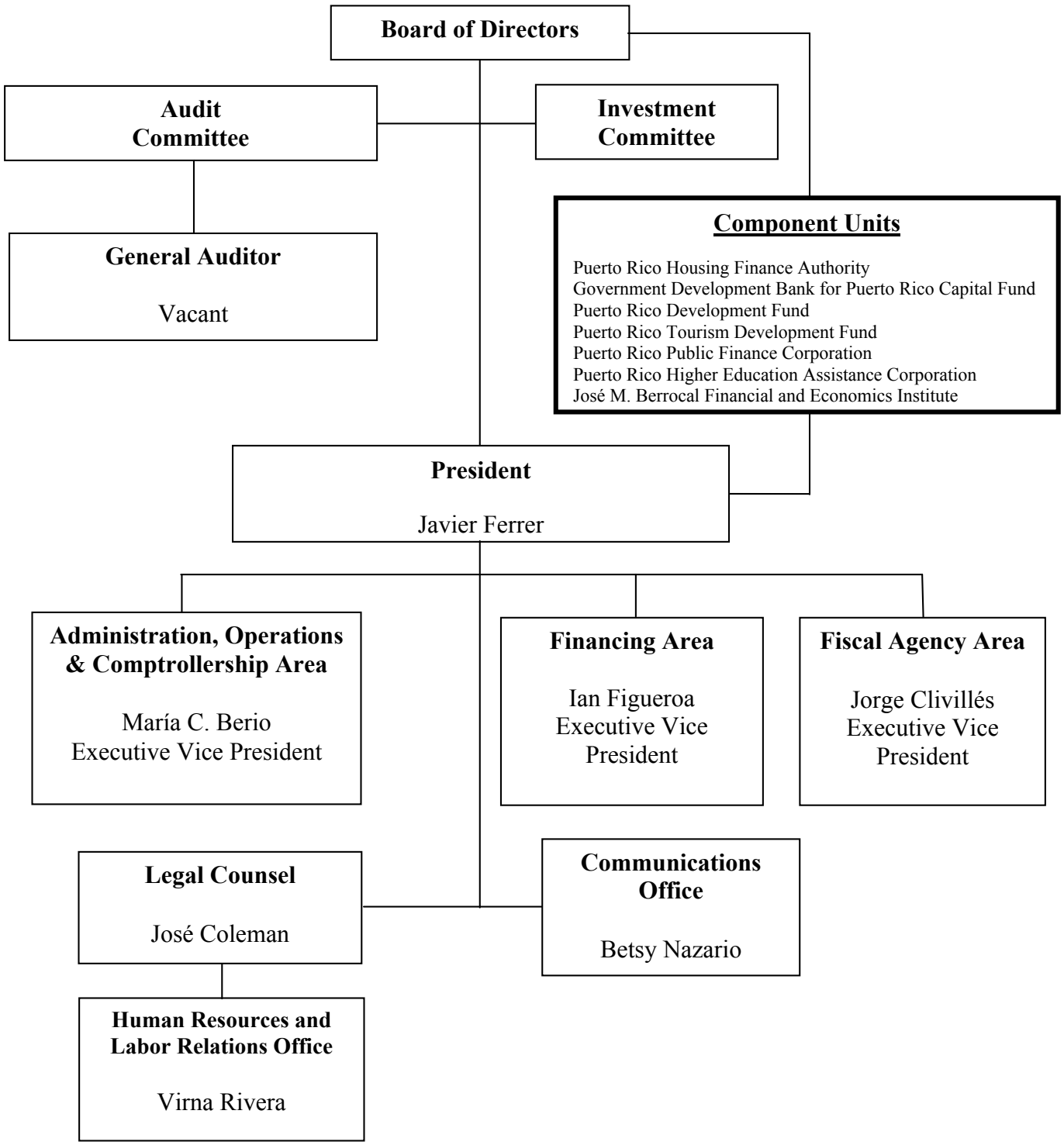
June 30, 2012

Executive Director/CEO

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Organizational Chart and Principal Officers

June 30, 2013



COMMONWEALTH OF
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Government Development Bank
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GDB

FINANCIAL SECTION

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

KPMG LLP
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Independent Auditors' Report

The Board of Directors
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, 2013, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

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Emphasis of a Matter

As discussed in note 7 to the financial statements, loans to the Commonwealth and its public entities amounted to approximately $6.9 billion or 48% of the Bank's total assets as of June 30, 2013. These loans are expected to be collected through appropriations from, bond issuances of, and revenues generated by the Commonwealth and its public entities. As discussed in note 4 to the financial statements, the Bank's liquidity and financial condition depends on the repayment of loans made to the Commonwealth and its public entities which face significant fiscal and financial challenges in their ability to generate sufficient funds from taxes, charges and/or future bond issuances.

Other Matters

Restatement of Net Position and Fund Balance

As part of our audit of the 2013 basic financial statements we also audited the adjustments described in note 2 that were applied to restate net position and fund balance as of July 1, 2012. The Bank's previously issued basic financial statements were audited by other auditors. In our opinion, such adjustments are appropriate and have been properly applied.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 17 through 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The combining financial statements and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

San Juan, Puerto Rico
April 30, 2014

Stamp No. E101063 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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

Management's Discussion and Analysis (Unaudited)

June 30, 2013

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, 2013. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

Financial Highlights

- During 2013, the Puerto Rico Housing Finance Authority identified prior period errors in the accounts payable and accrued liabilities of an understatement of approximately $20 million. Accounts payable and accrued liabilities in the governmental activities were understated by $20,427,338 related to disallowed costs of the HOME Program claimed by HUD. Such claim existed in prior year, but was not recognized. See notes 2 and 19 for additional information. Accounts payable and accrued liabilities of the New Secure Housing Program fund (presented as a nonmajor governmental fund) were overstated by $524,672. The accrual was based on a board resolution committing the funds for future events. The 2012 financial information included in the management discussion and analysis has been adjusted to reflect this correction.
- Total assets government-wide at June 30, 2013 amounted to $14,326 million for a decrease of $1,454 million or 9.2% from the $15,780 million at June 30, 2012. Liabilities decreased by 11% or $1,332 million to $11,947 million from $13,279 million.
- Net position government-wide decreased from $2,501 million at June 30, 2012 to $2,379 million at June 30, 2013. The decrease in net position of $122 million in fiscal year 2013 is composed of a negative change in net position of approximately $60 million from business-type activities and a negative change in net position of approximately $62 million from governmental activities. The ratio of net position to total assets increased to 16.6% at June 30, 2013 from 15.8% at June 30, 2012.
- The operating income of the GDB Operating Fund decreased from $285.5 million in 2012 to $178.9 million or $106.6 million in fiscal year 2013.
- Interest income on loans in the GDB Operating Fund amounted to $506.2 million in 2013, an increase of $18.3 million over the prior year. The Bank collected approximately $34.9 million of principal and $190.6 million of interest on loans to the public sector from the general fund of the Commonwealth of Puerto Rico (the Commonwealth).
- Included within salaries and fringe benefits expense is approximately $4.3 million related to an employees' voluntary termination plan provided during the current fiscal year under Act No. 70 of July 2, 2010.

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.

(a) 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 position provides information on the Bank's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the reporting period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

(b) 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 proprietary 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 fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

(c) 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.

Government-Wide Financial Analysis

Total assets and total liabilities of the Bank at June 30, 2013, amounted to $14,326 million and $11,947 million, respectively, for net position of $2,379 million or 16.6% of total assets. Within assets, investments and investment contracts and deposits placed with banks show the most significant decline of $2.4 billion and $428 million, respectively, over fiscal year 2012 ending balances. The proportion of investments and investment contracts to total assets decreased to 21% in 2013 from 34.1% in 2012.

The loan portfolio of $9,635 million at June 30, 2013, shows an increase of 15% when compared to the prior year ending balance of $8,374 million. Loans as a percentage of total assets increased 14.1% from 53.1% at the end of fiscal year 2012 to 67.2% at June 30, 2013.

Out of the $2,379 million in net position, $2,102 million or 88.3% is unrestricted, $56 million or 2.4% is restricted for use in housing programs, $66.1 million or 2.8% for debt service, $89 million or 3.8% is invested in capital assets and $65 million or 2.7%is restricted for the mortgage loan insurance program. Governmental and business-type activities are discussed separately in the following subsections.

(a) Governmental Activities

Total assets of governmental activities amounted to $89.6 million at June 30, 2013. Total liabilities amounted to $216.8 million, for a net position (deficit) of $127.2 million. Net position (deficit) has been broken down into amounts restricted for affordable housing programs of $20 million, and the unrestricted component of net position (deficit) of approximately $147.2 million, which means that the restriction on the use of available assets will not allow the Bank to satisfy its existing liabilities from those assets, and therefore that it will depend on future appropriations for the repayment of part of its obligations.

Condensed financial information on assets, liabilities and net position (deficit) of governmental activities as of June 30, 2013 and 2012 is shown below (amounts in thousands):

	June 30		Change	
	2013	2012	Amount	Percent
		(As restated)		
Assets:				
Cash and due from banks, and deposits placed with banks	$ 16,143	26,281	(10,138)	(38.6)%
Investments and investment contracts	62,027	63,844	(1,817)	(2.8)
Other assets	11,401	13,826	(2,425)	(17.5)
Total assets	$ 89,571	103,951	(14,380)	(13.8)%
Liabilities:				
Accounts payable and accrued liabilities	$ 36,989	64,084	(27,095)	(42.3)%
Notes payable – due in more than one year	3,431	3,427	4	0.1
Total liabilities before internal balances	40,420	67,511	(27,091)	(40.1)
Internal balances	176,372	102,062	74,310	72.8
Total liabilities	$ 216,792	169,573	47,219	27.8%
Net position (deficit):				
Investment in capital assets	$ 5	19	(14)	(73.7)%
Restricted for affordable housing programs	20,009	39,512	(19,503)	(49.4)
Unrestricted position (deficit)	(147,235)	(105,153)	(42,082)	40.0
Total net position (deficit)	$ (127,221)	(65,622)	(61,599)	93.9%

Restricted investments and investment contracts amounted to $62.0 million and, together with restricted cash and due from banks and deposits placed with banks of $16.1 million, account for the majority of the assets held by governmental activities. These assets are held to provide funds for the execution of the various affordable and other housing programs managed by the Housing Finance Authority. Other assets are mainly restricted and are composed principally of amounts due from the HUD and HOME federal programs. Accrued liabilities mainly consist of unpaid expenditures related to the HOME Program fund and of subsidies payable on various housing programs.

Condensed financial information on expenses, program revenues and changes in net position (deficit) of governmental activities during the years ended June 30, 2013 and 2012 is shown below (in thousands):

	Year ended June 30, 2013		
	General government	**Housing assistance programs**	**Total**
Expenses	$ 6,884	230,365	237,249
Program revenues:			
Charges for services – financing and investment	—	3,923	3,923
Operating grants and contributions	—	170,501	170,501
Net expenses	$ (6,884)	(55,941)	(62,825)
Transfers-in			1,226
Change in net position (deficit)			(61,599)
Net position (deficit) – beginning of year			(65,622)
Net position (deficit) – end of year			$ (127,221)

	Year ended June 30, 2012 (As restated)		
	General government	**Housing assistance programs**	**Total**
Expenses	$ 8,260	264,927	273,187
Program revenues:			
Charges for services – financing and investment	—	4,683	4,683
Operating grants and contributions	—	177,001	177,001
Net expenses	$ (8,260)	(83,243)	(91,503)
Transfers-in			81,914
Change in net position (deficit)			(9,589)
Net position (deficit) – beginning of year (as restated)			(56,033)
Net position (deficit) – end of year			$ (65,622)

Governmental Fund Results

Operating grants and contributions decreased by $6 million when compared to the prior year. Operating grants and contributions decreased from $177 million in 2012 to $171 million in 2013 mainly due to the net effect of the decline in American Recovery and Reinvestment Act (ARRA) funds of $21 million, offset by an increase of $7 million on the operating grants of the HUD programs and $6.6 million on the operating grants of the HOME program.

The loss in the operations of the governmental funds is mainly related to the fact that the Housing Finance Authority is subsidizing certain housing assistance programs with internally generated funds. During 2013, the change in net position (deficit) of the governmental activities increased by $52 million from $9.6 million during the year ended in June 30, 2012, to $61.6 million during the year ended June 30, 2013. Significant increase is mainly related to a reduction of $80.7 million and $7.3 million in the amounts transferred from the Housing Finance Authority proprietary funds to the governmental funds and program revenues, respectively, which were offset by an increase in operating expenses of the Home Assistance Programs of approximately $55 million and a reduction in expenses in General Government of $1.4 million.

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

(a) 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 three 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 increased $7 million from $134 million in 2012 to $141 million in 2013.

(b) HOME Program

This fund accounts for funds received from HUD for the administration of the HOME Program. The main purpose of this program is to increase the supply of decent and affordable housing for low and very low income families. The expenditures of the HOME Program amounted to $26 million for the fiscal year ended June 30, 2013, an increase of $9 million over the expenditures of the previous fiscal year.

(c) Affordable Housing Mortgage Subsidy Programs

Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124 – This special revenue fund is used to account for the proceeds of specific revenue sources under different stages of the 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 this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest

payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2013. Program and debt expenditures for the year ended June 30, 2013, amounted to approximately $20.6 million.

(d) My New Home Program

This program provides closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs. Subsidy and interest expenditures decreased by $20.2 million when compared with prior year. Subsidy and interest expenditures decreased from $69.2 million in 2012 to $49 million in 2013, mainly due to increase of underwriting requirements noted in the banking industry and termination of the available benefits to eligible families.

At June 30, 2013, the Housing Finance Authority had various governmental funds in a deficit position. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth. Refer to note 22 to the basic financial statements for additional information on these funds.

Business-Type Activities

Condensed financial information on assets, liabilities and net position as of June 30, 2013 and 2012, is presented below (in thousands):

	June 30		Change	
	2013	2012	Amount	Percent
Assets:				
Cash and due from banks	$ 65,017	70,962	(5,945)	(8.4)%
Federal funds sold and securities purchased under agreements to resell	450,000	477,900	(27,900)	(5.8)
Deposits placed with banks	554,507	977,406	(422,899)	(43.3)
Investments and investment contracts	2,953,531	5,319,171	(2,365,640)	(44.5)
Loans receivable – net	9,635,090	8,374,104	1,260,986	15.1
Accrued interest receivable	275,001	134,623	140,378	104.3
Real estate available for sale	65,595	107,824	(42,229)	(39.2)
Other receivable	102,734	75,866	26,868	35.4
Other assets	35,294	41,747	(6,453)	(15.5)
Internal balances	176,372	102,062	74,310	72.8
Capital assets	99,923	96,199	3,724	3.9
Total assets	$ 14,413,064	15,777,864	(1,364,800)	(8.7)%

	June 30		Change	
	2013	2012	Amount	Percent
Liabilities:				
Deposits:				
Demand	$ 3,087,710	3,947,130	(859,420)	(21.8)%
Certificates of deposit	2,488,960	2,119,804	369,156	17.4
Securities sold under agreements to repurchase	634,301	884,484	(250,183)	(28.3)
Accrued interest payable	48,952	48,847	105	0.2
Accounts payable, accrued liabilities, and other liabilities	359,651	277,658	81,993	29.5
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	424,743	603,528	(178,785)	(29.6)
Due in more than one year	4,862,220	5,329,396	(467,176)	(8.8)
Total liabilities	$ 11,906,537	13,210,847	(1,304,310)	(9.9)%
Net position:				
Net investment in capital assets	$ 89,609	96,199	(6,590)	(6.9)%
Restricted for:				
Mortgage loan insurance	64,954	62,762	2,192	3.5
Affordable housing programs	35,941	91,492	(55,551)	(60.7)
Debt service	66,114	—	66,114	100.0
Other housing programs	693	3,025	(2,332)	(77.1)
Unrestricted net position	2,249,216	2,313,386	(64,170)	(2.8)
Total net position	$ 2,506,527	2,566,864	(60,337)	(2.4)%

(a) Federal Funds Sold and Securities Purchased Under Agreements to Resell and Deposits Placed with Banks

The Bank decreased its federal funds sold and securities purchased under agreements to resell by $28 million, from $478 million at June 30, 2012, to $450 million at June 30, 2013. Deposits placed with banks decreased by $423 million, from $977 million to $554 million.

(b) Investments and Investment Contracts

Investments and investment contracts held in business-type activities amounted to $2,954 million at June 30, 2013. This amount represents a decrease of $2,366 million or 44.5% when compared to the prior year balance of $5,319 million. The investment portfolio has consisted primarily of U.S. Treasury Notes and U.S. sponsored agency notes and mortgage-backed securities with very high credit ratings, reflecting the Bank's prudent and conservative investment policies. The majority of the Bank's investment portfolio is invested in AAA to A – rated securities. The investment portfolio comprised 20.5% of the total assets of the Bank's business-type activities at June 30, 2013, down by 13.3% as compared to 33.7% at the close of fiscal year 2012. Within the investment securities portfolio, $925.6 million at June 30, 2013 and $1,367 million at June 30, 2012, were restricted or pledged as collateral or payment source for specific borrowings.

(c) Loans Receivable

Net loans receivable increased by $1,261 million or 15.1%, from the $8,374 million balance at June 30, 2012, to $9,635 million at June 30, 2013. The Bank's basic role is to provide financing support to the Commonwealth and its public entities and municipalities and other operational needs. To support the governmental efforts of improving and stimulating the Island's economy, the Bank also finances the development and construction of infrastructure, housing projects and hotels.

Loans to municipalities had a net increase of $67.4 million over the prior year balance. Some of these loans were possible with the improvement of the municipalities' debt margin capacity as a result of increases in the property and municipal sales taxes pledged for the repayment of the loans.

As further explained in notes 4 and 7 (b) to the accompanying basic financial statements, management believes the inherent credit risk of its public entities and municipalities loan portfolios is low as evidenced by the minimal historical losses incurred along with other mitigating factors, including the ability of the Commonwealth to enact laws and ultimately provide for a definitive repayment source and to the fact that the Director of the Puerto Rico Office of Management and Budget ("OMB") has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its public entities and municipalities requiring financial support in repaying their loans with the Bank. The Legislature has historically approved these appropriations, and such practice is anticipated to continue in the future. In addition, management's estimate of the allowance for loan losses is based on the fact that the Bank has been able to collect most of the loans to such public and municipalities sectors with proceeds from bonds or notes issued by the Commonwealth or its public entities, including bonds issued by the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation" or "COFINA" by its Spanish acronym), a component unit of the Commonwealth. The Commonwealth and its public entities have never defaulted on their respective bonds. The Bank has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from the Commonwealth's appropriations, or bond or note proceeds.

Private sector loans outstanding at June 30, 2013 and 2012 amounted to $537 million and $533 million, respectively, net of an allowance for loan losses and deferred origination fees of $233.6 million and $26.4 million at June 30, 2013 and $290.1 million and $27.5 million at June 30, 2012, respectively. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank. Refer to note 7 to the basic financial statements for further information on loans receivable and allowance for loan losses.

(d) Real Estate Available for Sale and Other Receivables

Real estate available for sale includes several properties received in fiscal year 2009 in lieu of payment of a loan whose principal balance and accrued interest receivable amounted to $144.2 million at December 30, 2008. As part of such agreement any subsequent loss or reduction of fair value shall be repaid by the Commonwealth or one of its components units. As of June 30, 2013, management of the Bank maintains approximately $82.3 million of other receivable balance, net of repayments, related to the losses or reductions in fair value from such properties.

For the fiscal year 2014, the Office of Management and Budget of the Commonwealth (OMB) has committed to include in the Commonwealth general fund budget an amount of approximately $7.5 million to repay a portion of the receivables. Future appropriations will be subject to the approval of the Legislature of the Commonwealth (the Legislature).

(e) Capital Assets

Capital assets, net of accumulated depreciation and amortization, amounted to $99.9 million at June 30, 2013, an increase of $3.7 million from the prior year. Additions to capital assets during the year ended June 30, 2013 aggregated to $14.7 million principally in the land and other nondepreciable assets line item. Depreciation and amortization of $2.1 million was charged to operations during fiscal year 2013. Refer to note 10 to the basic financial statements for additional information on capital assets.

(f) Deposits

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

Demand deposits and certificates of deposit had a combined decrease of $490 million, from $6,067 million at June 30, 2012 to $5,577 million at June 30, 2013. Deposits represent approximately 45.9% and 46.8% of total liabilities at June 30, 2013 and 2012, respectively.

(g) Securities Sold under Agreement to Repurchase

Securities sold under agreements to repurchase decreased by $250.2 million or 28.3% from $885 million to $634 million at June 30, 2012 and June 30, 2013, respectively.

(h) Long-Term Debt

The Bank and the Housing Finance Authority redeemed several notes and bonds payable during fiscal year 2013, which explains the net decrease of $646 million or 10.8% over the prior year balance of $5,933 million. Gross debt originations and payments during the fiscal year ending June 30, 2013, amount to $554 thousand and $1.2 million, respectively.

The credit ratings of the Commonwealth and most of its public entities (including the Bank) were downgraded to noninvestment grade categories. With respect to the Bank, Moody's Investors Service lowered its credit rating to "Ba2" and maintained its negative outlook, while Standard & Poors Rating Services lowered its credit rating to "BB" and maintained it in "CreditWatch" with negative implications.

Condensed financial information on expenses, program revenues and changes in net position for business-type activities for the years ended June 30, 2013 and 2012 is presented below (in thousands):

	Year ended June 30, 2013			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and others	Financing and investment	Net revenues/ (expenses)
GDB Operating Fund	$ 361,896	15,059	510,518	163,681
Housing Finance Authority	48,032	12,450	30,914	(4,668)
Tourism Development Fund	196,555	4,734	(6,408)	(198,229)
Public Finance Corporation	4	—	1	(3)
Capital Fund	34	14	—	(20)
Development Fund	20,179	101	331	(19,747)
Other nonmajor funds	127	—	2	(125)
Total	$ 626,827	32,358	535,358	(59,111)
Transfers to governmental activities				(1,226)
Change in net position				(60,337)
Net position – beginning of year				2,566,864
Net position – end of year				$ 2,506,527

	Year ended June 30, 2012			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and others	Financing and investment	Net revenues/ (expenses)
GDB Operating Fund	$ 402,188	36,827	638,403	273,042
Housing Finance Authority	98,865	16,758	60,903	(21,204)
Tourism Development Fund	238,885	3,224	14,898	(220,763)
Public Finance Corporation	4	153	1	150
Capital Fund	38	—	—	(38)
Development Fund	2,355	—	304	(2,051)
Other nonmajor funds	109	—	3	(106)
Total	$ 742,444	56,962	714,512	29,030
Transfers to governmental activities				(81,914)
Change in net position				(52,884)
Net position – beginning of year				2,619,748
Net position – end of year				$ 2,566,864

Activities presented in the statement of activities coincide with the major proprietary funds of the Bank. During the fiscal year 2013, GDB Operating Fund generated financing and investment revenues of $511 million from its loan and investment portfolios, and $15 million in other charges for services, including its fiscal agency function. These revenues covered $391 million in expenses, including $28.8 million in transfers to a component unit, for a change in net position, of $135 million, surpassing the change in net position of any other activity.

Proprietary Funds

Following is a brief discussion of the most significant changes in the Bank's proprietary funds, not previously discussed. Our main focus will be on GDB Operating Fund, since separate basic financial statements are issued for Housing Finance Authority, Tourism Development Fund and Public Finance Corporation, which are blended component units.

(a) GDB Operating Fund

Total assets of the GDB Operating Fund amounted to $13,720 million at June 30, 2013, compared to $14,957 million at June 30, 2012. This represents a decrease of $1,237 million, which was sustained by the net decrease in liabilities of $1,372 million and an increase change in net position of $135 million. The investment portfolio decreased by $2,139 million and loans increased by $1,211 million. Cash and due from banks and accrued interest receivable increased from $209 million at June 30, 2012 to $343 million at June 30, 2013.

Operating income of the GDB Operating Fund experienced a decrease from $285 million in fiscal year 2012 to $179 million in fiscal year 2013, or $106 million, which represents a 37% decrease. Change in net position had a significant decrease from $274 million in fiscal year 2012 to $135 million in fiscal year 2013. Following is a discussion of the various components of the change in net position of the GDB Operating Fund, compared to the prior year:

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

Net investment income, the difference between interest income (loans and investments) and interest expense, decreased $77 million or 25.3%, from $304 million in 2012 to $224 million in 2013. Most of the decrease results from the income driven from the investment portfolio, which shows a decrease of $146 million or 97% when compared to the prior year results. Change in fair value of investments contributed to the decrease with a loss of $66 million, which is $127 million less than the gain of $61 million of fiscal year 2012. Interest and dividend income on investments decreased $22.4 million or 26.1%. Interest income on loans in the GDB Operating Fund amounted to $506.2 in 2013, an increase of $21.3 million over the prior year. Interest expense decreased by $47 million, or 14%, mainly due to the redemption of GDB Senior Notes payable of approximately $319.5 million during the year.

(ii) Noninterest Income

Noninterest income decreased to $15 million in fiscal year 2013 from $37 million in fiscal year 2012, or $22 million. Fiscal agency fees constitute the main component of noninterest income. Bond issuances activity of public sector entities decreased during fiscal year 2013

when compared to fiscal year 2012. The fiscal agency fees decreased from $25 million in fiscal year 2012 to $2 million in fiscal year 2013, representing a decrease of 92%.

(iii) Noninterest Expenses

Total noninterest expenses showed an increase of $4 million from $55 million in fiscal year 2012 to $59 million in fiscal year 2013. The increase is mainly due to the net effect of: (1) other expenses decreased by $8.5 million in fiscal year 2013, (2) $11.5 million increase in professional services, (3) increases of approximately $600,000 in salaries and fringe benefits, and (4) $332,000 in occupancy and equipment costs.

(b) Housing Finance Authority

Net position of the Housing Finance Authority decreased by $6 million from $540 million at June 30, 2012 to $534 million at June 30, 2013 as a result of decrease in total assets and liabilities of $119 million and $113 million, respectively. The decrease in total assets is mainly due to the following:

- Cash decreased from $19 million at June 30, 2012 to $2.6 million at June 30, 2013 or a $16.4 million decrease as a result of housing program disbursements.
- Investments and deposits placed with banks decreased from $607 million at June 30, 2012 to $524 million at June 30, 2013 or an $83 million decrease. This decrease was principally the result of investment redemptions and sales to originate construction and single-family loans and for liquidity purposes.
- Loans receivable, net, increased to $296 million at June 30, 2013 from $290 million in 2012 or a $6 million increase.
- Assets, excluding cash, deposits placed with banks, loans, and investments, decreased from $53 million at June 30, 2012 to $26 million at June 30, 2013 or a $27 million decrease. There was a decrease in balances due from governmental funds of approximately $26 million.
- The decrease in long-term liabilities of approximately $79.7 million is the net effect of the redemption of approximately $229 million of Special Obligation notes netted by issuance of Special Obligation Notes of approximately $152 million.
- Negative change in net position decreased from $105 million in 2012 to $6 million in 2013, or a loss reduction of $99 million. The main items that contributed to this decrease was a reduction on net transfers of $82 million, the reduction on interest expense of approximately $9 million and a reduction of $7 million on other noninterest expenses.

(c) Tourism Development Fund

Total assets decreased to $376 million from $481 million in 2012 or a decrease of $105 million. The Tourism Development Fund mostly finances its loan portfolio through credit facilities obtained from the Bank. Notes payable due to the Bank at year-end were $332 million for a decrease of $75 million from June 30, 2012. The Tourism Development Fund originated approximately $35.1 million in loans to the private sector during the year ended June 30, 2013. These loans are principally

collateralized by real estate property to minimize the credit risk. The analysis of the allowance for loan losses required an incremental adjustment of $23.8 million during the year ended June 30, 2013.

At June 30, 2013, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $553.1 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of $156 million.

Change in net position of the Tourism Development Fund went from a $220.8 million loss recorded last year to a loss of $169.4 million in 2013. Loss during the year is principally due to the increase in the allowance for loan losses and allowance for guarantees and letter of credits recorded during the year.

At June 30, 2013, the Tourism Development Fund had a deficit. The Bank expects to continue providing to the Tourism Development Fund the necessary support through credit facilities to satisfy its obligations.

(d) Capital Fund

The Capital Fund had a net loss of $20,348 for the year ended on June 30, 2013. Since the year ended June 30, 2010, the Capital Fund activities have been significantly reduced since most of its assets were transferred to the Tourism Development Fund.

(e) Public Finance Corporation

The Public Finance Corporation had a net loss of $2,975 for the year ended on June 30, 2013. The main operation of this component unit is the issuance of special appropriation bonds. Interest income for fiscal year 2013 was $1,208 offset by legal and professional fees, and other expenses of $4,183.

(f) Development Fund

The Development Fund's net loss of $19.7 million is mainly due to the provision for loan losses of $6.2 million related to loans to the private sector and to the provision for losses on guarantees of $13.6 million

At June 30, 2013, the Development Fund had a deficit. The Bank expects to continue providing to the Development Fund the necessary financial support through credit facilities to satisfy its obligations.

Economic factors

The Bank, along with the Commonwealth, has taken a number of steps during the last 14 months to enhance its liquidity, including:

- A recent $3.5 billion bond issuance of Commonwealth general obligation bonds, which provided for the repayment of approximately $1.9 billion of loans made by the Bank to the Commonwealth and the Public Buildings Authority.

- In February 2014, the Governor of the Commonwealth announced that his administration would reduce the fiscal year 2014 deficit to $650 million by proposing legislation to reduce fiscal year 2014 appropriations by $170 million, and his commitment to recommend to the Legislature the approval of a balanced budget for fiscal year 2015.

Contacting the Bank's Financial Management

This report is designed to provide all interested parties 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 Position

June 30, 2013

Assets	Governmental activities	Business-type activities	Total
Cash and due from banks	$ 12,641,328	65,016,755	77,658,083
Federal funds sold and securities purchased under agreements to resell	—	450,000,000	450,000,000
Deposits placed with banks	3,501,566	554,506,744	558,008,310
Due from federal government	10,997,325		10,997,325
Investments and investment contracts	62,027,302	2,953,530,901	3,015,558,203
Loans receivable – net	—	9,635,090,316	9,635,090,316
Accrued interest receivable	363,261	275,001,830	275,365,091
Real estate available for sale	—	65,595,067	65,595,067
Capital assets:			—
Land and other nondepreciable assets	—	90,017,697	90,017,697
Other capital assets	5,074	9,904,528	9,909,602
Other receivables	—	102,734,566	102,734,566
Deferred bonds and notes issue cost, and other assets	34,964	35,293,945	35,328,909
Total assets	89,570,820	14,236,692,349	14,326,263,169
Liabilities			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand	—	3,087,710,220	3,087,710,220
Certificates of deposit			
Due within one year	—	2,197,718,279	2,197,718,279
Due in more than one year	—	291,241,261	291,241,261
Securities sold under agreements to repurchase	—	634,301,000	634,301,000
Accrued interest payable	70,754	48,951,557	49,022,311
Accounts payable and accrued liabilities			
Due within one year	36,918,583	49,380,679	86,299,262
Due in more than one year	—	18,609,720	18,609,720
Internal balances	176,372,302	(176,372,302)	—
Allowance for losses on guarantees and letters of credit			
Due within one year	—	28,633,287	28,633,287
Due in more than one year	—	233,504,674	233,504,674
Allowance for losses on mortgage loan insurance	—	5,184,527	5,184,527
Participation agreement payable			
Due within one year	—	866,664	866,664
Due in more than one year	—	23,472,225	23,472,225
Bonds, notes, and mortgage-backed certificates payable			
Due within one year	—	424,742,825	424,742,825
Due in more than one year	3,430,564	4,862,220,354	4,865,650,918
Total liabilities	216,792,203	11,730,164,970	11,946,957,173
Net Position (Deficit)			
Net investment in capital assets	5,074	89,608,550	89,613,624
Restricted for:			
Mortgage loan insurance	—	64,954,464	64,954,464
Affordable housing programs	20,008,647	35,941,337	55,949,984
Debt service	—	66,113,543	66,113,543
Other housing programs	—	693,176	693,176
Unrestricted net position (deficit)	(147,235,104)	2,249,216,309	2,101,981,205
Total net position (deficit)	$ (127,221,383)	2,506,527,379	2,379,305,996

See accompanying notes to basic financial statements.

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

Statement of Activities

Year ended June 30, 2013

		Program revenues			Net revenues/(expenses) and changes in net position (deficit)		
	Expenses	Charges for services – fees, commissions, and others	Charges (expenses) for services – financing and investment	Operating grants and contributions	Governmental activities	Business-type activities	Total
Functions/programs:							
Governmental activities:							
General government and other	$ 6,883,590	—	—	—	(6,883,590)	—	(6,883,590)
Housing assistance programs	230,366,311	—	3,922,627	170,501,118	(55,942,566)	—	(55,942,566)
Total governmental activities	237,249,901	—	3,922,627	170,501,118	(62,826,156)	—	(62,826,156)
Business-type activities:							
GDB Operating Fund	361,895,753	15,058,735	510,518,474	—	—	163,681,456	163,681,456
Housing Finance Authority	48,031,994	12,449,661	30,914,229	—	—	(4,668,104)	(4,668,104)
Tourism Development Fund	196,554,684	4,734,268	(6,407,867)	—	—	(198,228,283)	(198,228,283)
Public Finance Corporation	4,183	—	1,208	—	—	(2,975)	(2,975)
Capital Fund	34,045	13,570	127	—	—	(20,348)	(20,348)
Development Fund	20,179,348	101,164	331,020	—	—	(19,747,164)	(19,747,164)
Other nonmajor	127,254	—	2,488	—	—	(124,766)	(124,766)
Total business-type activities	626,827,261	32,357,398	535,359,679	—	—	(59,110,184)	(59,110,184)
Total	$ 864,077,162	32,357,398	539,282,306	170,501,118	(62,826,156)	(59,110,184)	(121,936,340)
Transfers in (out) – net					1,226,294	(1,226,294)	—
Change in net position (deficit)					(61,599,862)	(60,336,478)	(121,936,340)
Net position (deficit) – beginning of year, as restated (see note 2 for further details)					(65,621,521)	2,566,863,857	2,501,242,336
Net position (deficit) – end of year					$ (127,221,383)	2,506,527,379	2,379,305,996

See accompanying notes to basic financial statements.

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

Balance Sheet – Governmental Funds

June 30, 2013

	HUD Programs	Home Program	AHMSP Act No. 124	My New Home Program	Nonmajor governmental funds	Eliminations	Total governmental funds
Assets:							
Cash and due from banks	$ 497,943	665,872	11,477,513	—	—	—	12,641,328
Deposits placed with banks	—	—	3,501,566	—	—	—	3,501,566
Due from federal government	1,080,927	9,916,398	—	—	—	—	10,997,325
Investments and investment contracts	—	—	62,027,302	—	—	—	62,027,302
Due from other funds	57,678	—	22,900,275	1,927,021	765,748	—	25,650,722
Interest and other receivables	7,248	—	356,012	—	—	—	363,260
Total assets	$ 1,643,796	10,582,270	100,262,668	1,927,021	765,748	—	115,181,503
Liabilities:							
Due to other funds	$ 1,023,514	1,365,174	52,626,613	92,937,220	54,070,503	—	202,023,024
Accounts payable and accrued liabilities	620,282	9,007,256	4,410,764	400,776	2,052,168	—	16,491,246
Deferred revenue	—	6,992,837	—	—	—	—	6,992,837
Total liabilities	1,643,796	17,365,267	57,037,377	93,337,996	56,122,671	—	225,507,107
Fund balances (deficit):							
Restricted for affordable housing programs	—	—	43,225,291	1,526,245	467,201	—	45,218,737
Unassigned	—	(6,782,997)	—	(92,937,220)	(55,824,124)	—	(155,544,341)
Total fund balances (deficit)	—	(6,782,997)	43,225,291	(91,410,975)	(55,356,923)	—	(110,325,604)
Total liabilities and fund balances	$ 1,643,796	10,582,270	100,262,668	1,927,021	765,748	—	115,181,503

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

Total fund deficit	$ (110,325,604)
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	34,964
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,074
Bonds and notes payable are not due and payable in the current period and therefore are not reported in the funds	(3,430,564)
Accounts payable and accrued liabilities not due and payable in the current period	(20,427,336)
Accrued interest payable not due and payable in the current period	(70,754)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	6,992,837
Net position (deficit) of governmental activities	$ (127,221,383)

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Governmental Funds

Year ended June 30, 2013

	HUD Programs	Home Program	AHMSP Act No. 124	My New Home Program	Nonmajor governmental funds	Total governmental funds
Revenues:						
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ —	—	1,188,927	—	—	1,188,927
Intergovernmental – federal government	140,784,231	21,198,199	—	—	—	161,982,430
Interest income on deposits placed with banks	—	—	120,644	33,819	738	155,201
Interest on investments	—	—	4,213,645	—	—	4,213,645
Net decrease in fair value of investments	—	—	(291,018)	—	—	(291,018)
Other	37,345	553,881	865,396	806,498	691,389	2,954,509
Total revenues	140,821,576	21,752,080	6,097,594	840,317	692,127	170,203,694
Expenditures:						
Current:						
General government and other	5,062,320	1,007,520	634,324	163,625	—	6,867,789
Housing assistance programs	135,759,256	24,899,459	18,363,826	44,592,230	21,828	223,636,599
Debt service:						
Interest	—	—	1,643,206	4,228,230	862,227	6,733,663
Total expenditures	140,821,576	25,906,979	20,641,356	48,984,085	884,055	237,238,051
Deficiency of revenues over expenditures	—	(4,154,899)	(14,543,762)	(48,143,768)	(191,928)	(67,034,357)
Other financing sources (uses):						
Transfers-in	—	—	1,242,217	5,000,000	885,252	7,127,469
Transfers-out	—	—	(5,901,175)	—	—	(5,901,175)
Total other financing sources (uses), net	—	—	(4,658,958)	5,000,000	885,252	1,226,294
Net change in fund balances (deficit)	—	(4,154,899)	(19,202,720)	(43,143,768)	693,324	(65,808,063)
Fund balances (deficit) – beginning of year, as restated (see note 2)	—	(2,628,098)	62,428,011	(48,267,207)	(56,050,247)	(44,517,541)
Fund balances (deficit) – end of year	$ —	(6,782,997)	43,225,291	(91,410,975)	(55,356,923)	(110,325,604)

Amounts reported for governmental activities in the statement of net position are different because:	
Net change in fund balances (deficit) – total governmental funds	$ (65,808,063)
Governmental funds report capital outlay as expenditures; however, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the depreciation for the year.	(17,067)
Capital assets recorded as expenditures, however, in the statement of activities, the cost of these assets is allocated over their estimated useful life and reported as depreciation expense.	3,107
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.	3,951
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	4,220,051
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 current year.	(1,841)
Change in net position (deficit) of governmental activities.	$ (61,599,862)

See accompanying notes to basic financial statements.

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

Balance Sheet – Proprietary Funds

June 30, 2013

Assets	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Eliminations	Total enterprise funds
Current assets:									
Cash and due from banks	$ 64,462,608	1,220,115	21,710,611	1,190,045	—	6,419,012	2,430,818	(32,552,257)	64,880,952
Federal funds sold and securities purchased to resell	450,000,000	—	—	—	—	—	—	—	450,000,000
Deposits placed with banks	462,787,676	128,532,220	1,500,000	—	—	—	—	(108,536,010)	484,283,886
Investments and investment contracts	156,482,147		33,771,125	—	200,711	—	—	—	190,453,983
Loans receivable	1,074,525,765	6,852,517	1,371,665	—	—	4,321,625	—	(246,758,048)	840,313,524
Accrued interest receivable	278,797,451	2,084,726	364,026	99	8	27,400	204	(7,656,734)	273,617,180
Other current receivables	17,540,188	1,091,707	1,800,000	—	—	—	8	—	20,431,903
Other current assets	664,561	325,682	291,280	—	—	—	—	—	1,281,523
Due from governmental funds	196,905,997	5,117,027	—	—	—	—	—	—	202,023,024
Restricted:									
Cash and due from banks	—	1,375,687	—	—	—	—	—	(1,239,884)	135,803
Deposits placed with banks	—	112,696,486	—	—	—	—	—	(42,473,628)	70,222,858
Investments and investment contracts	51,092,500	32,860,013	—	—	—	—	—	—	83,952,513
Accrued interest receivable	—	1,465,461	—	—	—	—	—	(80,811)	1,384,650
Other current receivables	—	14,542	—	—	—	—	—	—	14,542
Total current assets	2,753,258,893	293,636,183	60,808,707	1,190,144	200,719	10,768,037	2,431,030	(439,297,372)	2,682,996,341
Noncurrent assets:									
Restricted:									
Investments and investment contracts	610,572,814	232,332,320	—	—	—	—	—	—	842,905,134
Loans receivable	—	83,021,910	—	—	—	—	—	—	83,021,910
Real estate available for sale	—	1,790,828	—	—	—	—	—	—	1,790,828
Other assets	—	2,907,736	—	—	—	—	—	—	2,907,736
Investments and investment contracts	1,695,272,955	18,067,395	119,263,712	—		3,615,209	—	—	1,836,219,271
Loans receivable, net	8,394,519,177	205,967,383	196,268,295	—	—	—	—	(84,999,973)	8,711,754,882
Real estate available for sale	54,678,269	9,125,970	—	—	—	—	—	—	63,804,239
Capital assets:									
Land and other nondepreciable assets	90,017,697	—	—	—	—	—	—	—	90,017,697
Other capital assets	7,900,225	2,004,303	—	—	—	—	—	—	9,904,528
Other receivables	82,288,121	—	—	—	—	—	—	—	82,288,121
Deferred bonds, notes issue costs, and other assets	31,104,686	—	—	—	—	—	—	—	31,104,686
Total noncurrent assets	10,966,353,944	555,217,845	315,532,007	—	—	3,615,209	—	(84,999,973)	11,755,719,032
Total assets	$ 13,719,612,837	848,854,028	376,340,714	1,190,144	200,719	14,383,246	2,431,030	(524,297,345)	14,438,715,373

(Continued)

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

Balance Sheet – Proprietary Funds

June 30, 2013

Liabilities and Net Position	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Eliminations	Total enterprise funds
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 3,124,702,807	—	—	—	—	—	—	(36,992,587)	3,087,710,220
Certificates of deposit	2,348,727,917	—	—	—	—	—	—	(151,009,638)	2,197,718,279
Securities sold under agreements to repurchase	634,301,000	—	—	—	—	—	—	—	634,301,000
Accrued interest payable	48,749,804	145,783	7,342,778	—	—	—	—	(7,737,545)	48,500,820
Accounts payable and accrued liabilities	29,948,343	11,116,093	1,139,115	53,899	27,357	127,187	34,031	3,200,446	45,646,471
Allowance for losses on guarantees and letters of credit	—	—	23,940,462	—		4,692,825	—	—	28,633,287
Due to governmental funds	25,650,722	—	—	—	—	—	—	—	25,650,722
Participation agreement payable	—	—	866,664	—	—	—	—	—	866,664
Notes payable	388,911,392	—	246,758,048	—	—	—	—	(246,758,048)	388,911,392
Total current liabilities payable from unrestricted assets	6,600,991,985	11,261,876	280,047,067	53,899	27,357	4,820,012	34,031	(439,297,372)	6,457,938,855
Current liabilities payable from restricted assets:									
Accrued interest payable	—	450,737	—	—	—	—	—	—	450,737
Accounts payable and accrued liabilities	—	3,734,208	—	—	—	—	—	—	3,734,208
Allowance for losses on mortgage loan insurance	—	5,184,527	—	—	—	—	—	—	5,184,527
Bonds, notes and mortgage-backed certificates payable	—	35,831,433	—	—	—	—	—	—	35,831,433
Total current liabilities	6,600,991,985	56,462,781	280,047,067	53,899	27,357	4,820,012	34,031	(439,297,372)	6,503,139,760
Noncurrent liabilities:									
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	291,241,261	—	—	—	—	—	—	—	291,241,261
Allowance for losses on guarantees and letters of credit	—	—	223,904,792	—	—	9,599,882	—	—	233,504,674
Accounts payable and accrued liabilities	15,427,826	2,850,882	—	—	—	331,012	—	—	18,609,720
Participation agreement payable	—	—	23,472,225	—	—	—	—	—	23,472,225
Bonds and notes payable	4,606,754,579	—	84,999,973	—	—	—	—	(84,999,973)	4,606,754,579
Noncurrent liabilities payable from restricted assets:									
Bonds, notes and mortgage-backed certificates payable	—	255,465,775	—	—	—	—	—	—	255,465,775
Total noncurrent liabilities	4,913,423,666	258,316,657	332,376,990	—	—	9,930,894	—	(84,999,973)	5,429,048,234
Total liabilities	11,514,415,651	314,779,438	612,424,057	53,899	27,357	14,750,906	34,031	(524,297,345)	11,932,187,994
Net position (deficit):									
Net investment in capital assets	87,604,247	2,004,303	—	—	—	—	—	—	89,608,550
Restricted for:									
Mortgage loan insurance	—	64,954,464	—	—	—	—	—	—	64,954,464
Affordable housing programs	—	35,941,337	—	—	—	—	—	—	35,941,337
Debt service	—	66,113,543	—	—	—	—	—	—	66,113,543
Other housing programs	—	693,176	—	—	—	—	—	—	693,176
Unrestricted net position (deficit)	2,117,592,939	364,367,767	(236,083,343)	1,136,245	173,362	(367,660)	2,396,999	—	2,249,216,309
Total net position (deficit)	2,205,197,186	534,074,590	(236,083,343)	1,136,245	173,362	(367,660)	2,396,999	—	2,506,527,379
Total liabilities and net position (deficit)	$ 13,719,612,837	848,854,028	376,340,714	1,190,144	200,719	14,383,246	2,431,030	(524,297,345)	14,438,715,373

See accompanying notes to basic financial statements.

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

Statement of Revenues, Expenses, and Changes in Net Position (Deficit) – Proprietary Funds

Year ended June 30, 2013

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Total enterprise funds
Operating revenues:								
Investment income:								
Interest income on federal funds sold	$ 4,144,576	—	—	—	—	—	—	4,144,576
Interest income on deposits placed with banks	1,862,927	1,787,103	30,707	1,208	—	10,044	2,488	3,694,477
Interest and dividend income on investments and investment contracts	63,914,057	13,794,989	1,499,544	—	127	320,976	—	79,529,693
Net decrease in fair value of investments	(65,558,468)	(3,259,081)	(8,598,533)	—	—	—	—	(77,416,082)
Total investment income (loss)	4,363,092	12,323,011	(7,068,282)	1,208	127	331,020	2,488	9,952,664
Interest income on loans receivable:								
Public sector	504,444,156	—	—	—	—	—	—	504,444,156
Private sector	1,711,226	18,591,218	660,415	—	—	—	—	20,962,859
Total interest income on loans receivable	506,155,382	18,591,218	660,415	—	—	—	—	525,407,015
Total investment income (loss) and interest income on loans receivable	510,518,474	30,914,229	(6,407,867)	1,208	127	331,020	2,488	535,359,679
Noninterest income:								
Fiscal agency fees	1,737,815	206,643	—	—	—	—	—	1,944,458
Commitment guarantee and other services fees	11,346,019	192,073	2,665,950	—	—	101,164	—	14,305,206
Mortgage loan insurance premiums	—	4,932,860	—	—	—	—	—	4,932,860
Servicing and contract administration fees, net	1,559,587	5,962,045	262,702	—	—	—	—	7,784,334
Net gain on sale of real estate available for sale	35,980	—	—	—	—	—	—	35,980
Other income	379,334	1,156,040	1,805,616	—	13,570	—	—	3,354,560
Total noninterest income	15,058,735	12,449,661	4,734,268	—	13,570	101,164	—	32,357,398
Total operating revenues (loss)	525,577,209	43,363,890	(1,673,599)	1,208	13,697	432,184	2,488	567,717,077
Operating expenses:								
Provision (recapture) for loan losses	—	(754,646)	23,773,732	—	—	6,236,980	—	29,256,066
Interest expense:								
Deposits	47,955,571	—	—	—	—	—	—	47,955,571
Securities sold under agreements to repurchase	4,255,995	—	—	—	—	—	—	4,255,995
Commercial paper	18,000	—	—	—	—	—	—	18,000
Bonds, notes and mortgage-backed certificates	235,091,271	24,871,487	15,493,547	—	—	—	—	275,456,305
Total interest expense	287,320,837	24,871,487	15,493,547	—	—	—	—	327,685,871
Noninterest expenses:								
Salaries and fringe benefits	26,752,906	11,090,757	277,243	—	—	—	75,358	38,196,264
Depreciation and amortization	1,142,565	927,883	—	—	—	—	—	2,070,448
Occupancy and equipment costs	3,611,190	2,281,018	3	—	—	—	—	5,892,211
Legal and professional fees	22,275,636	2,487,891	1,052,748	4,096	32,000	310,244	54,713	26,217,328
Office and administrative	961,995	1,684,720	41,534	—	2,045	—	—	2,690,294
Subsidy and trustee fees	10,400	331,438	—	—	—	—	—	341,838
Provision for losses on guarantees and letters of credit	—	—	155,913,928	—	—	13,628,225	—	169,542,153
Provision for losses on mortgages loan insurance	—	885,481	—	—	—	—	—	885,481
Other	4,589,040	3,156,482	1,949	87	—	3,899	(2,817)	7,748,640
Total noninterest expenses	59,343,732	22,845,670	157,287,405	4,183	34,045	13,942,368	127,254	253,584,657
Total operating expenses	346,664,569	46,962,511	196,554,684	4,183	34,045	20,179,348	127,254	610,526,594
Operating income (loss)	178,912,640	(3,598,621)	(198,228,283)	(2,975)	(20,348)	(19,747,164)	(124,766)	(42,809,517)
Nonoperating expenses:								
Loss on early extinguishment of debt	—	(1,068,050)	—	—	—	—	—	(1,068,050)
Contributions to others	(15,231,184)	(1,433)	—	—	—	—	—	(15,232,617)
Total nonoperating expenses	(15,231,184)	(1,069,483)	—	—	—	—	—	(16,300,667)
Transfers-in	—	15,923	28,781,250	—	—	—	100,000	28,897,173
Transfers-out	(28,881,250)	(1,242,217)	—	—	—	—	—	(30,123,467)
Change in net position (deficit)	134,800,206	(5,894,398)	(169,447,033)	(2,975)	(20,348)	(19,747,164)	(24,766)	(60,336,478)
Net position (deficit) – beginning of year	2,070,396,980	539,968,988	(66,636,310)	1,139,220	193,710	19,379,504	2,421,765	2,566,863,857
Net position (deficit) – end of year	$ 2,205,197,186	534,074,590	(236,083,343)	1,136,245	173,362	(367,660)	2,396,999	2,506,527,379

See accompanying notes to basic financial statements.

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

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Eliminations	Total enterprise funds
Cash flows from operating activities:									
Cash received from interest on housing program loans	$ —	12,882,041	—	—	—	—	—	—	12,882,041
Cash paid for housing program loans originated	—	(36,148,871)	—	—	—		—	—	(36,148,871)
Principal collected on mortgage and construction on housing program loans	—	35,056,887	—	—	—	—	—	—	35,056,887
Cash received from recovery on loans	—	696,125	—	—	—	—	—	—	696,125
Guarantee fees collected	—	—	3,287,541	—	—	494,466	—	—	3,782,007
Payment of guarantees						(365,518)	—	—	(365,518)
Cash received from other operating noninterest revenues	15,817,083	7,405,633	—	—	13,570		61	—	23,236,347
Cash payment for other operating noninterest expenses	(59,175,623)	(23,764,669)	(2,072,116)	(4,140)	(26,401)	(304,125)	(126,583)	(8,599,124)	(94,072,781)
Cash received from mortgage loans insurance premiums	—	5,615,067	—	—	—	—	—	—	5,615,067
Due (from) to governmental funds	(99,819,754)	25,509,487	—	—	—	—	—	—	(74,310,267)
Net cash provided by/(used in) operating activities	(143,178,294)	27,251,700	1,215,425	(4,140)	(12,831)	(175,177)	(126,522)	(8,599,124)	(123,628,963)
Cash flows from noncapital:									
Financing activities:									
Contributions to other entities	(14,882,941)	(1,433)	—	—	—	—	—	—	(14,884,374)
Transfers-in	—	15,923	—	—	—	—	100,000	—	115,923
Transfers-out	(100,000)	(1,242,217)	—	—	—	—	—	—	(1,342,217)
Net increase (decrease) in:									
Deposits	(875,985,797)	—	(2,000,000)	—	—	—	—	16,566,343	(861,419,454)
Certificates of deposit	409,042,692	—	—	—	—	—	—	(39,887,523)	369,155,169
Proceeds from issuance of securities sold under	—	—	—	—	—	—	—	—	—
agreements to repurchase	30,009,620,496	—	—	—	—	—	—	—	30,009,620,496
Payment of securities sold under agreements to repurchase	(30,259,803,830)	—	—	—	—	—	—	—	(30,259,803,830)
Proceeds from issuance of bonds, notes, and mortgage-backed securities	500,000,000	152,822,696	9,491,329	—	—	—	—	(108,792,890)	553,521,135
Repayments of bonds, notes and mortgage backed securities	(1,069,505,000)	(244,095,649)	(72,216,667)	—	—	—	—	174,430,807	(1,211,386,509)
Payment of bond issue costs	—	(758,722)	—	—	—	—	—	—	(758,722)
Payments to early extinguish of bonds payable in excess of principal	—	(1,068,052)	—	—	—	—	—	—	(1,068,052)
Interest paid	(279,676,501)	(12,322,579)	(350,106)	—	—	—	—	11,935,896	(280,413,290)
Net cash provided by (used in) noncapital financing activities	(1,581,290,881)	(106,650,033)	(65,075,444)	—	—	—	100,000	54,252,633	(1,698,663,725)
Cash flows from capital and related financing activities – acquisition of capital assets	(13,447,951)	(455,777)	—	—	—	—	—	—	(13,903,728)

(Contiued)

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

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise Funds	Eliminations	Total enterprise funds
Cash flows from investing activities:									
Net decrease (increase) in:									
Federal funds sold and securities purchases under agreements to resell	$ 27,900,000	—	—	—	—	—	—	—	27,900,000
Deposits placed with banks	442,212,324	(71,076,941)	11,875,816	—	—	—	—	39,887,523	422,898,722
Purchases of investments	(4,721,388,475)	(20,718,753)	(38,875,668)	—	(7,850)	—	—	—	(4,780,990,746)
Cash received from recovery on real estate available for sale	—	108,500	—	—	—	—	—	—	108,500
Proceeds from sales and redemptions of investments	6,767,714,145	171,089,075	92,751,657	—	20,827	—	—	—	7,031,575,704
Interest and dividends received on investments	77,940,125	15,956,538	1,588,945	1,296	(146)	331,202	2,490	(725,077)	95,095,373
Interest received on other than housing program loans	341,537,995	—	428,388	—	—	—	—	(11,210,818)	330,755,565
Origination of other than housing program loans	(2,289,824,806)	(30,135,000)	(35,119,653)	—	—	(3,883,605)	—	108,792,890	(2,250,170,174)
Fees collected on other than housing program loans	—	870,389	—	—	—	—	—	—	870,389
Principal collected on other than housing program loans	1,069,358,887	—	42,152,834	—	—	—	—	(174,430,807)	937,080,914
Proceeds from sale of real estate available for sale	4,235,880	1,117,155	—	—	—	—	—	—	5,353,035
Advances received on sale of real estate available for sale	13,408,800	—	—	—	—	—	—	—	13,408,800
Disbursements for acquisition and improvements to real estate available for sale	(2,001)	(3,632,950)	—	—	—	—	—	—	(3,634,951)
Net cash provided by (used in) investing activities	1,733,092,874	63,578,013	74,802,319	1,296	12,831	(3,552,403)	2,490	(37,686,289)	1,830,251,131
Net change in cash and due from banks	(4,824,252)	(16,276,097)	10,942,300	(2,844)	—	(3,727,580)	(24,032)	7,967,220	(5,945,285)
Cash and due from banks – beginning of year	69,286,860	18,871,899	10,768,311	1,192,889	—	10,146,592	2,454,850	(41,759,361)	70,962,040
Cash and due from banks – end of year	$ 64,462,608	2,595,802	21,710,611	1,190,045	—	6,419,012	2,430,818	(33,792,141)	65,016,755
Reconciliation to enterprise funds:									
Balance sheet:									
Cash and due from banks – unrestricted	$ 64,462,608	1,220,115	21,710,611	1,190,045	—	6,419,012	2,430,818	(32,552,257)	64,880,952
Cash and due from banks – restricted	—	1,375,687	—	—	—	—	—	(1,239,884)	135,803
Total cash and due from banks at year end	$ 64,462,608	2,595,802	21,710,611	1,190,045	—	6,419,012	2,430,818	(33,792,141)	65,016,755

(Contiued)

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

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Eliminations	Total enterprise funds
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	$ 178,912,640	(3,598,621)	(198,228,283)	(2,975)	(20,348)	(19,747,164)	(124,766)	—	(42,809,517)
Adjustments to reconcile operating income/(loss) to net cash provided by (used in) operating activities:									
Investment income	(69,921,560)	(15,582,092)	(1,530,251)	(1,208)	(127)	(331,020)	(2,488)	—	(87,368,746)
Interest income on other than housing program loans	(506,155,382)	—	(660,415)	—	—	—	—	—	(506,815,797)
Other income	—	—	(1,805,616)	—	—	—	—	—	(1,805,616)
Capitalized interest and deferred amortization on loans	—	(5,530,217)	—	—	—	—	—	—	(5,530,217)
Tax credit fees	—	(174,619)	—	—	—	—	—	—	(174,619)
Interest expense	287,320,837	24,871,487	15,493,547	—	—	—	—	—	327,685,871
Provision for loan losses	—	(754,647)	23,773,732	—	—	6,236,980	—	—	29,256,065
Provision for losses on guarantees and letters of credit	—	—	155,913,928	—	—	13,628,225	—	—	169,542,153
Payment of guarantees	—	—	—	—	—	(365,518)	—	—	(365,518)
Net decrease in fair value of investments	65,558,468	3,259,081	8,598,533	—	—	—	—	—	77,416,082
Provision for losses on real estate available for sale	2,978,487	1,791,436	—	—	—	—	—	—	4,769,923
Provision for losses on mortgage loan insurance	—	885,481	—	—	—	—	—	—	885,481
Net decrease in market value of real estate available for sale	—	137,874	—	—	—	—	—	—	137,874
Credit for losses on other assets	(50,970)	—	—	—	—	—	—	—	(50,970)
Loss (gain) on sale of real estate held for sale	(35,980)	891,913	—	—	—	—	—	—	855,933
Depreciation and amortization	1,142,565	927,883	—	—	—	—	—	—	2,070,448
Changes in operating assets and liabilities:									
Housing program loans receivable	—	(36,148,871)	—	—	—	—	—	—	(36,148,871)
Collection of mortgage and construction loans	—	35,644,512	—	—	—	—	—	—	35,644,512
Interest receivable on housing program loans	—	(163,672)	—	—	—	—	—	—	(163,672)
Decrease (increase) in other assets	3,960,494	(232,227)	—	—	—	—	52	—	3,728,319
Increase (decrease) in other liabilities	(7,068,141)	(4,482,487)	357,549	43	7,644	10,018	680	(8,599,124)	(19,773,818)
Increase (decrease) in guarantee fees	—	—	(697,299)	—	—	393,302	—	—	(303,997)
Decrease (increase) in due from/(to) governmental funds	(99,819,752)	25,509,486	—	—	—	—	—	—	(74,310,266)
Net cash provided by (used in) operating activities	$ (143,178,294)	27,251,700	1,215,425	(4,140)	(12,831)	(175,177)	(126,522)	(8,599,124)	(123,628,963)

(Contiued)

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

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Nonmajor enterprise funds	Eliminations	Total enterprise funds
Noncash investing and noncapital financing activities:									
Accretion of discount and capitalized interest on investments securities and deposits placed with banks	$ (1,756,241)	1,801,488	49,875	—	281	—	—	—	95,403
Capitalized interest on loans and other	8,127,570	4,419,603	—	—	—	—	—	(5,616,724)	6,930,449
Tax credit fees collected from loans	—	174,619	—	—	—	—	—	—	174,619
Increase in other receivables from sale or valuation of real estate available for sale	30,233,964	—	—	—	—	—	—	—	30,233,964
Increase of accrual of payments on land under development	817,745	—	—	—	—	—	—	—	817,745
Increase of accrual of contributions payable to others	348,243	—	—	—	—	—	—	—	348,243
Accretion of discount (premium) on bonds and notes payable	169,220	11,150,565	5,616,724	—	—	—	—	(5,616,724)	11,319,785
Noncash transfer:									
Transfers-out	28,781,250	21,116	—	—	—	—	—	—	28,802,366
Transfers-in	—	(21,116)	(28,781,250)	—	—	—	—	—	(28,802,366)
Principal and interest activity of participation agreement	—	—	1,253,035	—	—	—	—	—	1,253,035
Decrease in fair value of investments	(65,558,468)	(3,259,081)	(8,598,533)	—	—	—	—	—	(77,416,082)
Amortization of bond issue cost (included in interest expense)	5,803,292	1,065,990	—	—	—	—	—	—	6,869,282
Amortization of deferred loss	—	346,799	—	—	—	—	—	—	346,799
Interfund transfer of mortgage loans receivable to other real estate available for sale	—	15,312	—	—	—	—	—	—	15,312

See accompanying notes to basic financial statements.

(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, paying agent and financial advisor for the Commonwealth and its agencies, instrumentalities, and public corporations (collectively referred to as public entities) and municipalities; to make interim and long-term loans to public entities and municipalities and private enterprises, which will further the economic development of Puerto Rico; and to act as depository or trustee of funds for the Commonwealth, its public entities and municipalities. 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 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 position 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, 2013.

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 or PFC), 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 resolution 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. The Bank may impose its will or obtain a financial benefit or financial burden from each of the blended components units. Financial statements of the Housing Finance Authority, the Tourism Development Fund, and PFC may be obtained from the Bank.

The Housing Finance Authority 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, or used to provide subsidies to such families for the acquisition of their primary residences. The Housing Finance Authority is authorized by the U.S. Department of Housing and Urban Development (HUD) to administer the U.S. Housing Act Section 8 Program in Puerto Rico, to administer the HOME Investment Partnerships (HOME) Program 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. Some of the assets of the Housing Finance Authority are restricted for mortgage loan insurance operations as explained in note 14 of the basic financial statements.

The Housing Finance Authority is the State Housing Agency (SHA) in charge of implementing the Low-Income Housing Tax Credit Program (LIHTC) in Puerto Rico. The tax credits provide a financial incentive to construct, rehabilitate, and operate rental housing for low-income tenants. A 10-year tax credit is available for each unit set-aside for low-income use as long as eligible households occupy a specific portion of units in a building or project. The rents charged on the set-aside units are restricted and eligible households occupy them or such units becoming vacant must be held open for eligible households for at least 15 years, plus a minimum of 15 additional years that the Housing Finance Authority requires.

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. At June 30, 2013, the Tourism Development Fund had a deficit. The Bank expects to continue providing to the Tourism Development Fund the necessary financial support through credit facilities to satisfy its obligations.

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. At June 30, 2013, the Development Fund had a deficit. The Bank expects to continue providing to the Development Fund the necessary financial support through credit facilities to satisfy its obligations.

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

The Capital Fund was created in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank's general investment operations, an equity investments process through professional equity investment managers. On May 31, 2010, the Board of Directors of the Capital Fund authorized the transfer of its investments portfolio of approximately $72 million to the Tourism Development Fund. The transfer was completed on June 30, 2010. The Capital Fund's activities have been reduced significantly after June 30, 2010.

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.

(2) Restatement of Net Position (Deficit) and Fund Balance (Deficit)

During 2013, the Housing Finance Authority identified the following errors related to the prior year basic financial statements:

a) Accounts payable and accrued liabilities in the governmental activities were understated by $20,427,338 related to disallowed costs of the HOME Program. Such claim existed in prior year, but was not recognized. See note 19 for additional information.

b) Accounts payable and accrued liabilities of the New Secure Housing Program fund (presented as a nonmajor governmental fund) were overstated by $524,672. The accrual was based on a board resolution committing the funds for future events.

The impact of these errors on the beginning net position (deficit) reported in the government-wide financial statements was as follows:

		Governmental activities
Net position (deficit), July 1, 2012 as previously reported	$	(45,718,855)
Increase in accounts payable and accrued expenses (a)		(20,427,338)
Decrease of accounts payable and accrued expenses (b)		524,672
Net position (deficit), July 1, 2012 as restated	$	(65,621,521)

The effect of these errors, had they been corrected in prior year basic financial statements, would have decreased the change in net position in the governmental activities by approximately $0.5 million, from a decrease in net position of $(10.1) million to $(9.6) million. The prior period correction related to the disallowed costs by HUD does not have an impact on the change in net position reported in the 2012 basic financial statements since claim relates to a previous period (2011).

The impact of these errors on the beginning fund balance/(deficit) reported in the fund financial statements was as follows:

	Governmental funds
	Nonmajor governmental funds
Fund balance (deficit) July 1, 2012, see note 3	$ (56,574,919)
Decrease of accounts payable and accrued expenses (b)	524,672
Fund balance (deficit) July 1, 2012 as restated	$ (56,050,247)

The effect of the errors, had it been corrected in the prior year basic financial statements, would have decreased the net change in fund balance (deficit) from a $(3.4) million to $(2.9) million. The increase in accounts payable and accrued expenses in the HOME Program does not have an impact in the governmental fund financial statements since such amount was not due and payable as of June 30, 2012.

(3) Summary of Significant Accounting Policies

The accounting and reporting policies of the Bank conform to generally accepted accounting principles in the United States of America (U.S. GAAP), as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements.

The 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/expenditures during the reported period. Actual results could differ from those estimates.

(a) Basis of Presentation

Government-Wide Financial Statements

The statement of net position 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 position, except for the residual amounts due between governmental and business-type activities. Internal balances are not included in the total column of the government-wide statement of net position. Interfund charges for services among functions of the government-wide statement of activities have not been eliminated. The Bank's activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through intergovernmental revenues and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services and interest earned on

investment securities and loans. Following is a description of the Bank's government-wide financial statements.

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

- Net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, mortgage and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- Restricted component of net position consists of restricted assets reduced by liabilities related to 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 component of net position consists of net amount of the assets and liabilities that do not meet the definition of the two preceding categories. Unrestricted component of net position often is assigned, in order to indicate that management does not consider them to be available for general operations. Unrestricted component of net assets often has constraints on use that are imposed by management, but such constraints may be removed or modified.

When both restricted and unrestricted components of net position are available for use, it is the Bank's policy to use restricted components of net position, and then, unrestricted components of net position as they are needed.

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, 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 proprietary funds.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements, with nonmajor funds being combined into a single column. Fund balances at the beginning of the year are restated to reflect changes in major fund definition. In the case of proprietary funds, each individual blended component unit of the Bank with the exception of JMB

Institute and the 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 a proprietary fund.

Fund balances for each governmental fund are displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed – amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority. The Bank's highest decision-making level of authority rests with Bank's Board of Directors. The Bank did not have any committed resources as of June 30, 2013.
- Assigned – amounts with specific constraints generally designated by executive orders of the Bank's President that that do not meet the criteria to be classified as restricted or committed.
- Unassigned – amounts that are available for any purpose.

When both restricted and unrestricted resources (the total amount of committed, assigned and unassigned fund balance) are available for use, it is the Bank's policy to use restricted resources first, and then, unrestricted resources as they are needed. Further when components of unrestricted fund balance can be used for the same purpose, committed find balance is depleted first followed by assigned fund balance. Unassigned fund balance is applied last.

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

- HUD Programs – This special revenue fund accounts for the subsidy to low and moderate-income families for the rental of decent and safe dwellings under the U.S. Housing Act Section 8 programs.
- HOME Program – This special revenue fund is used to account for the specific revenue sources related to the HOME Program. The objectives of this special revenue fund include: (1) expanding the supply of decent and affordable housing, particularly housing for low-income families; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnership

among all levels of government and private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

- Affordable Housing Mortgage Subsidy Programs (AHMSP) Act No. 124 – This special revenue fund is used to account for the proceeds of specific revenue sources under different stages of the 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 this program, the Authority commits to provide a subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this program as of June 30, 2013.
- My New Home Program – This special revenue fund accounts for revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Housing Finance Authority, for a period of seven years, a portion of no less than 80% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the Commonwealth. This program provides subsidies to eligible families in the purchase of a primary residence through reimbursement of origination and closing costs.

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

- Closing Costs Assistance Program – This special revenue fund accounts for revenues received mainly from appropriations from the Commonwealth to provide closing costs subsidies to eligible individuals or families for the purchase of an eligible principal residence.
- 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 assist with the housing needs of those families living in hazard-prone areas.

Change in Governmental Funds Presentation

Annually, the Housing Finance Authority reassess the presentation of all its funds. During the year ended June 30, 2013, the presentation of AHMSP Stages 2, 3, 6, 7, 8, 11, AHMSP Act No. 124, AHMSP Mortgage-Backed Certificates and Protecting Your Home Program (collectively the Funds) and the Home Program was changed. Since the funding of the operations of the Funds is coming from AHMSP Act No. 124, the Housing Finance Authority combined the Funds related to a single major fund named AHMSP Act. No. 124 in the governmental funds of the basic financial statements. In prior year, the AHMSP Stage 7 fund was presented as a major governmental fund and the remaining funds were presented as individual nonmajor governmental funds in the basic financial statements.

The impact of the change in presentation on the beginning fund balance (deficit) reported in the fund financial statements as of July 1, 2012 was as follows:

	Governmental funds			
	Home Program	AHMSP Act No. 124	Affordable Housing Mortgage Subsidy Program Stage 7	Nonmajor governmental funds
Fund balance (deficit), July 1, 2012 as previously reported	$ —	—	(20,473,557)	23,698,551
Change of governemntal fund from nonmajor to major	(2,628,098)	—	—	2,628,098
Combination of all funds related to the Affordable Housing Mortgage Subsidy Programs	—	62,428,011	20,473,557	(82,901,568)
Change in fund balance as a result of restatement (see note 2)	—	—	—	524,672
Fund balance (deficit), July 1, 2012	$ (2,628,098)	62,428,011	—	(56,050,247)

(b) Measurement Focus and Basis of Accounting

The government-wide financial statements and proprietary fund 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.

The governmental fund's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the HUD Programs, HOME Program and Closing Costs Assistance Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on general long term debt, claims and judgments, and compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from the Bank and its components units 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, letters of credit, or guarantees and all general and administrative expenses, among others. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

(c) 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. As of June 30, 2013, securities purchased under agreements to resell amounting to $300,000,000 were outstanding.

(d) Investments and Investment Contracts

Investments and investment contracts are reported 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 or based on upon quoted prices for similar instruments in active markets. 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.

(e) Loans Receivable and Allowance for Loan Losses General Policy

General Policy — Loans are presented at the outstanding unpaid principal balance reduced by the allowance for loan losses. The allowance for loan losses is established through a provision recorded in the statement of activities. The Bank determines the allowance for loan losses by portfolio sector, which consist of the public and private sector loans. The allowance for loan losses is based on management's evaluation of the risk characteristics of the loans 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's estimate of credit losses in the outstanding loans receivable portfolios and the related allowance may change in the near future.

i. Allowance for Loan Losses – Public Sector

One of the Bank's principal functions is to provide financing to the Commonwealth and its public entities and municipalities of the Commonwealth. This financing includes interim financing of

capital improvements payable from Commonwealth's general obligation bonds or revenue bonds issued by the corresponding public entity, and loans to finance the Commonwealth's budget deficit payable from the Puerto Rico Sales Tax Financing Corporation (the Sales Tax Corporation or COFINA), seasonal collection of income taxes and annual appropriations made by the Legislature. The aggregate amount of these loans has increased in recent years as a result of (i) the deterioration of the fiscal situation and financial condition of the Commonwealth and its public entities, and (ii) general market conditions, which in turn have negatively affected the ability of the Commonwealth and its public entities to permanently finance their capital expenditures and operating deficits by issuing bonds and notes.

The access of the Commonwealth and its public entities to funding through the bond market to finance their capital improvement programs, as well as any future operating deficits, may be affected by changes in their respective credit ratings. The credit ratings of the Commonwealth and some of its public entities have been downgraded, and the Bank may be asked to provide financing for these capital improvement programs and/or for working capital needs if access to the bond markets is limited. These interim financings are granted by the Bank as part of its role of providing financing, with or without guarantees, to the Commonwealth of Puerto Rico and its public entities; however, the Bank is not required by law to provide such financing. Under Act No. 164 of 2001, as amended, the Bank is prohibited from making loans to any public entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislature, with certain limited exceptions, including up to an aggregate amount of $100 million in loans without the Legislature approval and including loans 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, or has a source of repayment as provided by law, 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. Act No. 164-2001, as amended by Act No. 24 of 2014, places significant restrictions on the Bank's ability to extend credit to the Commonwealth and its public corporations when the source of repayment consists of future legislative appropriations or increases in rates, taxes or other charges that have not been previously approved.

In order to assess the inherent credit risk on the public sector loans, management's assessment methodology consists mainly in segregating the public sectors loans by repayment source and determining probable credit losses related to specifically identified loans as well as probable credit losses inherent in the remainder of the loan portfolio. Public entities loans; are segregated by the following sources of repayment: proceeds from bonds and notes issuances, operating revenues, legislative appropriations, and other sources. The municipalities loans are segregated by the following sources of repayment: collections of property tax, collections of municipal sales and use tax, operating revenues, and other sources.

As further explained in notes 4 and 7, management believes the inherent credit risk of its public entities and municipalities loan portfolios is low as evidenced by the minimal historical losses

incurred along with other mitigating factors, including the ability of the Commonwealth to enact laws and ultimately provide for a definitive repayment source and to the fact that the Director of the Puerto Rico Office of Management and Budget ("OMB") has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its public entities and municipalities requiring financial support in repaying their loans with the Bank. The Legislature has historically approved these appropriations, and such practice is anticipated to continue in the future. In addition, management's estimate of the allowance for loan losses is based on the fact that the Bank has been able to collect most of the loans to such public and municipalities sectors with proceeds from bonds or notes issued by the Commonwealth or its public entities, including bonds issued by COFINA, a component unit of the Commonwealth. The Commonwealth and its public entities have never defaulted on their respective bonds. The Bank has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from the Commonwealth's appropriations, or bond or note proceeds.

For loans to public entities and municipalities, the accrual of interest ceases only when management determines that all of the following characteristics are present, thus the mere existence of several but not all of these attributes does not warrant the discontinuance of interest income recognition: (a) a loan is six months past due; (b) it has no definitive 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. Furthermore, the lending cycle of the Bank is somewhat longer that the usual cycle of a financial institution to the extent that the ultimate collection of the legal balance of its public entities and municipalities portfolios, and the related interest receivable, is intrinsically related to their ability to access the capital markets. Thus, a delay in bonding out the outstanding loans and lines of credit does not automatically warrant non-performing classification and discontinuance of interest income.

ii. Allowance for Loan Losses – Private Sector

Another function of the Bank is to provide financing to private entities that operate within specific industries of interest to the Commonwealth due to the economic impact of its operations to the Puerto Rico economy. All of these transactions are approved by the Board of Directors of the Bank and as of June 30, 2013, are mainly related to the dairy, tourism industry and affordable housing programs in Puerto Rico. The Housing Finance Authority grants mortgage loans 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. The accrual of interest on loans to the private sector ceases when loans become past due over six months.

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.

As a general procedure, the Bank internally reviews appraisals as part of the underwriting and approval process and also for credits considered impaired that exceed certain thresholds. Appraisals may be adjusted by management due to their age, property conditions, geographical area or general market conditions as deemed necessary. The adjustments applied are based upon internal information, such as other appraisals and/or loss severity information available in several real estate market publications.

(f) 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 portfolio 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 debt in default, determined on the basis of the estimated future net cash outlays in connection with the related guarantees and letters of credit, or the fair value of the debt's collateral, 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 debt, 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 other economic 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, as defined, in the previous year in excess of revenues collected (net disbursement). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the Tourism Development Fund, to modify the definition of net disbursement 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. However, Act No. 173 provides that such 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 OMB may include the amount subject to reimbursement in the general fund 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, 2013, there were no outstanding claims for reimbursements.

(g) 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. Issuance costs of bonds accounted for in the governmental funds are recorded as expenditures when paid.

(h) 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 the Bank by using 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 expense. Gain or loss on sale of real estate available for sale is included within revenues or expenses in the accompanying statement of activities and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and changes in net position.

(i) Capital Assets

Capital assets, which include premises and equipment, are stated at cost less accumulated depreciation and amortization. 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 expenses, 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

(j) 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.

(k) 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 proprietary fund financial statements present the cost of accumulated vacation and sick leave within accounts payable and accrued liabilities.

(l) Allowance for Losses on Mortgage Loan Insurance

The estimated liability for losses on mortgage loan insurance is based on management's evaluation of potential losses on insurance claims after considering economic conditions, market value of related property, and other pertinent factors. Such amount is, in the opinion of management, adequate to cover estimated future probable mortgage loan insurance losses. Actual losses for mortgage loan insurance are charged, and recoveries, if any, are credited to the estimated liability for losses on mortgage loan insurance. Because of uncertainties inherent in the estimation process, management's estimate of losses in the outstanding loan guarantee portfolio and the related liability may change in the near future.

(m) 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.

(n) 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.

(o) Conduit 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 conduit 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 public entities, or to refund such previously issued bonds. 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 conduit debt, and therefore neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

(p) Loan Origination Costs and Commitment Fees

Governmental accounting standard pronouncements, require 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 net position and changes in net position.

(q) Guarantee Fees

Guarantee fees are amortized over the life of the related guarantee using the straight-line method.

(r) 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 Housing Finance Authority 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.

(s) Mortgage Loan Insurance Premiums

Premiums on insured mortgage loans are recognized as earned during the period of the insurance coverage.

(v) Future Adoption of Accounting Pronouncements

The GASB has issued the following Statements:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities, or vice versa. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations.
- GASB Statement No. 66, *Technical Corrections-2012 – an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. As a result, governments should base their decisions about fund type classification on the nature of the activity to be reported, as required in Statement No. 54 and Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

  The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides

guidance for transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. This Statement defines the term operations for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

- GASB Statement No. 70, *Accounting and Financial Reporting for Non Exchange Financial Guarantees*, which is effective for periods beginning after June 15, 2013. The objective of this Statement is to improve accounting and financial reporting by state and local government that extend and receive nonexchange financial guarantees. This Statement requires a governmental entity guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Certain qualitative factors should be considered when evaluating the likelihood of a guaranty payment, such as: initiation of a bankruptcy process, breach of a debt contract in relation to the guaranteed obligation and indications of significant financial difficulty such as failure to pay agents or trustees. Management is evaluating the impact that these statements will have on the Bank's basic financial statements.

(4) Liquidity Risk and Recent Credit Rating Downgrades of the Commonwealth and its Public Entities including the Bank

(a) Background

The Bank has traditionally served as interim lender to the Commonwealth and its public entities in anticipation of the issuance of long-term bonds and notes by such entities in the municipal bond market. The Bank has also provided financing to the Commonwealth and its public entities to finance their respective budget deficits, collateral requirements under swap agreements and to meet mandatory payments of obligations. As a result of this lending function, the Bank serves as the principal source of short-term liquidity for the Commonwealth and its public entities.

Liquidity risk is the ability to raise cash when needed to meet obligations when they are due, at a reasonable cost and with minimum loss. Loans to the Commonwealth and its public entities constitute a significant portion of the Bank's assets. As a result, the Bank's liquidity and financial condition depends to a large extent on the repayment of loans made to the Commonwealth and its public entities, which face significant fiscal and financial challenges. Conditions that adversely affect the ability of the Commonwealth and its public entities to raise cash (including access to the bond market) and repay their interim and other loans to the Bank have an adverse effect on the Bank's liquidity and financial condition. Similarly, conditions that adversely affect the ability of the Bank to raise cash (including access to the bond market) or otherwise finance its loan portfolio also have an adverse effect on the Commonwealth and its public entities, as the Bank's ability to continue providing interim and deficit financing to the Commonwealth and its public entities is reduced.

(b) Factors Affecting Liquidity

The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past fourteen years. During the fiscal year ended June 30, 2013, and subsequent to the end of the fiscal year, the Bank's liquidity position was adversely affected by, among other factors, a significant increase in credit spreads for obligations of the Commonwealth and its public entities, the Commonwealth's limited capital markets access, and a significant reduction of liquidity in the local Puerto Rico capital markets. In February 2014, the credit ratings of the Commonwealth and most of its public entities (including the Bank) were lowered to noninvestment grade categories. With respect to the Bank, Moody's Investors Service (Moody's) lowered its credit rating to "Ba2" and maintained its negative outlook, while Standard & Poors Rating Services (S&P) lowered its credit rating to "BB" and maintained it in "CreditWatch" with negative implications. These factors have resulted in delays in the repayment by the Commonwealth and its public entities of their loans payable to the Bank and, at the same time, caused the Commonwealth and its public entities to rely more heavily on short-term financing from the Bank. The credit rating downgrades could further adversely affect the Bank's liquidity position.

In addition, the liquidity of the Bank could also be affected by short-term obligations of the Commonwealth and its public entities maturing during fiscal years 2014 and 2015, some of which are also subject to earlier acceleration as a result of the downgrades. The majority of these short-term obligations of the Commonwealth and its public entities were refinanced with proceeds from the recent issuance of Commonwealth general obligation bonds (described below). However, several of such short-term obligations of the Commonwealth and its public entities remain outstanding. Although the Bank has previously assisted the Commonwealth and its public entities in satisfying obligations similar to those listed above, the Bank is not legally required to provide such assistance and there is no assurance that it will be able to continue to provide such assistance to any or all of the Commonwealth and its public entities. To the extent that the Bank financing is unavailable, the Commonwealth and its public entities may be required to find other sources of funding in order to meet their obligations. There is no assurance that the Commonwealth and its public entities will be able to access other sources of financing or obtain funding sufficient at any one time to meet their obligations as they come due. If such other financing or funding sources are not available, the financial condition of the Commonwealth and the public entities could deteriorate further and their ability to repay their loans to the Bank may be adversely affected.

(c) Measures to Improve Liquidity

The Bank, along with the Commonwealth, has taken a number of steps to enhance its liquidity, including:

- During March 2014, there was a $3.5 billion bond issuance of Commonwealth general obligation bonds, which provided for the repayment of approximately $1.9 billion of loans made by the Bank to the Commonwealth and the Public Buildings Authority (PBA), reducing the outstanding balance of the Bank's loans to the Commonwealth by $1.7 billion and of Bank's loans to PBA by $187 million.

- In February 2014, the Governor of the Commonwealth announced that his administration would reduce the fiscal year 2014 deficit to $650 million by proposing legislation to reduce fiscal year 2014 appropriations by $170 million, and his commitment to recommend to the Legislature the approval of a balanced budget for fiscal year 2015. These measures, if achieved, would lessen the pressure on the Bank of continuing to provide loans to the Commonwealth to finance operational deficits.
- Under recently enacted legislation, the Bank has the legal authority to require that certain public funds currently deposited at private financial institutions, including demand deposit accounts, be deposited at the Bank, subject to specified exceptions.
- Recently enacted Act No. 24 of 2014 prohibits the Bank, subject to certain limited exceptions, from making loans to public entities payable from future increases in rates, taxes or other charges. In essence, each public entity seeking financing from the Bank must demonstrate sufficient approved revenue streams to cover debt service on any new loan from the Bank. As an exception, the Bank is permitted to grant emergency loans in those cases where the Board of Directors of the Bank determines that essential public services could be affected. These loans, however, are limited to an aggregate amount not to exceed 10% of the gross income of such public entity during the previous two fiscal years up to a limit of $50 million. The Bank is also permitted to grant loans to public entities that are deemed to be not capable of repaying any principal or interest amount owed to bondholders or financial entities other than the Bank. Act No. 24 of 2014 is intended to impose fiscal discipline on the public entities, while preserving the Bank's balance sheet. In addition, such legislation (i) increases from $550 million to $2 billion the amount of the Bank obligations that can be guaranteed by the full faith and credit of the Commonwealth to provide the Bank with greater flexibility in its role of granting interim financing to public corporations and agencies (such guarantee can also be extended before September 1, 2014, at the discretion of the Treasury Secretary and the Bank, to certain other governmental obligations guaranteed by the Bank), (ii) grants the Bank the ability to exercise additional oversight over certain public funds deposited at private financial institutions and grants the Bank legal authority, subject to an entity's ability to request waivers under certain specified circumstances, to require such public funds (other than funds of the Legislative Branch, the Judicial Branch, the University of Puerto Rico, governmental pension plans, municipalities and certain other independent agencies) to be deposited at the Bank, which is expected to result in a more efficient management of public resources and (iii) provides a process through which OMB may assume, on behalf of the Commonwealth, the repayment from budgetary appropriations (commencing fiscal year 2017) of certain obligations owed by governmental agencies or public corporations to the Bank, up to a maximum amount of $500 million.

The Bank's management's ability to implement additional initiatives and the terms thereof are subject to risks and uncertainties and may be adversely affected by subsequent credit rating downgrades and other adverse conditions in capital markets. The management of the Bank cannot provide any assurance that it will ultimately be successful in implementing any of such additional initiatives. The failure to implement these initiatives may have a material adverse effect on the financial condition of the Bank.

(5) Cash and Due from Banks, Federal Funds Sold, Deposits Placed with Banks, and Securities Purchased under Agreements to Resell

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's 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 $558 million mature within one month. Federal funds sold mature overnight and no collateral is required.

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2013. As of June 30, 2013, $692,362,448 of the depository bank balance of $725,133,009 was uninsured and uncollateralized as follows:

		Carrying amount	Depository bank balance	Amount uninsured and uncollateralized
Cash and due from banks	$	77,658,083	17,126,992	3,723,307
Deposits placed with banks		558,008,310	558,006,017	538,639,141
Federal funds sold		150,000,000	150,000,000	150,000,000
Total	$	785,666,393	725,133,009	692,362,448

The carrying amount of securities purchased under agreements to resell at June 30, 2013, amounted to $300 million. These agreements mature during the following month. The average amount outstanding during the year amounted to approximately $367.7 million with the largest amount outstanding at any month-end amounting to approximately $300 million. The Bank's investment policies establish minimum amounts of acceptable collateral, as well as the fair value of the securities in collateral. The fair value of the collateral is reviewed daily and the margin amount adjusted accordingly. The collateral was held by the Bank's custodian agent in the Bank's name.

(6) 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 its public entities, and municipalities.
- Federal funds sold.
- Securities purchased under agreements to resell.
- World Bank securities.
- Mortgage-backed and asset-backed securities.
- Corporate debt, including investment contracts.
- External investment pools.
- Stock of corporations created under the laws of the United States of America or the Commonwealth.
- 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 Investors Services.

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

Credit Risk – Credit risk is the risk that an issue or other counterparty to an investment will not fulfill its obligations. The Bank's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings (Fitch), 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 versus payment procedures.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Bank's investment policies also provide that the ALCO is responsible for implementing and monitoring the Bank's interest rate risk policies and strategies. The ALCO meets on a monthly basis to coordinate and monitor the interest rate risk management of interest sensitive assets and interest sensitive liabilities, including matching of their anticipated level and maturities, consistent with the Bank's liquidity, capital adequacy, risk and profitability goals set by the Bank's Board of Directors.

The following table summarizes the type and maturities of investments held by the Bank at June 30, 2013. 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

fromcontractual 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 notes	$ 72,894,619	104,411,816	—	—	177,306,435
U.S. sponsored agencies notes:					
Federal National Mortgage Association ("FNMA")	—	153,776,590	379,198,852	—	532,975,442
Federal Home Loan Bank ("FHLB")	59,121,060	281,380,614	111,084,938	—	451,586,612
Federal Home Loan Mortgage Corporation ("FHLMC")	—	160,721,200	124,015,500	—	284,736,700
Federal Farm Credit Bank ("FFCB")	11,069,300	1,751,742	48,504,903	—	61,325,945
Mortgage and asset-backed securities:					
Government National Mortgage: Association ("GNMA")	—	958,239	—	131,331,476	132,289,715
FNMA	—	—	8,756,961	514,578,067	523,335,028
FHLMC	—	—	9,109	268,409,954	268,419,063
Interest-only strips	—	—	—	8,883,149	8,883,149
Other	—	177,960	—	74,103,701	74,281,661
Corporate debt:					
Caterpillar	7,565,255	—	—	—	7,565,255
United Parcel Services	2,050,320	—	—	—	2,050,320
General Electric	—	7,177,950	—	—	7,177,950
Wells Fargo	—	2,020,160	—	—	2,020,160
Walmart Stores	2,049,480		—	—	2,049,480
Andrew Mellon Foundation	—	3,109,200	—	—	3,109,200
Microsoft, Corp.	—	968,870	—	—	968,870
Amazon	—	2,486,725	—	—	2,486,725
International Business Machines	3,022,830	—	—	—	3,022,830
First Puerto Rico Family of Funds	74,920,000	—	—	—	74,920,000
Puerto Rico Tax Free Fund I	7,500,000	—	—	—	7,500,000
Puerto Rico Tax Free Fund II	7,500,000	—	—	—	7,500,000
Puerto Rico Tax Free Target Maturity Fund	7,500,000	—	—	—	7,500,000
Puerto Rico Fixed Income IV	7,500,000	—	—	—	7,500,000
Puerto Rico Fixed Income V	7,500,000	—	—	—	7,500,000
External investment pools:					
Fixed-income securities	—	118,861,959	—	5,412,893	124,274,852
Israel aid bonds	—	20,321,836	34,023,804	—	54,345,640
Nonparticipating investment contracts:					
Trinity Funding Co.	—	—	—	20,336,986	20,336,986
Citibank N.A.	—	—	—	17,628,800	17,628,800
Banco Popular de Puerto Rico	—	—	—	14,904,616	14,904,616
Banco Santander Puerto Rico	—	—	—	11,178,924	11,178,924
U.S. Municipal Notes	4,012,920	9,879,068	—	23,775,000	37,666,988
Total investments	$ 274,205,784	868,003,929	705,594,067	1,090,543,566	2,938,347,346
External investment pools:					
Equity securities:					
Russell 1000 Growth Common Trust Fund					58,979,570
Global Opportunities Capital Appreciation Fund					14,211,583
Preferred securities/interest:					
Grupo Hima San Pablo					3,615,209
Other					404,495
Total					$ 3,015,558,203

Investments in fixed-income external investment pools had an average maturity of more than one year. These investments include $118,861,959 invested in the Puerto Rico Government Investment Trust Fund, a government-sponsored pool, which is administered by the Bank. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the value of the pool shares.

At June 30, 2013, the total amount of $15,762,905 of the Bank's investment in corporate debt maturing over one year, bears fixed interest rate. Also, at June 30, 2013, approximately 13.4% 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.

During fiscal year 2013, the Bank invested in interest-only strips to maximize yields and as a protection against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to increased prepayments by mortgages, which may result from a decline in interest rates. If interest rates decline, the value of interest-only strips declines. If interest rates increase, the value of interest-only strips increases.

During the year ended June 30, 2013, the Tourism Development Fund entered into an agreement with a third party to redeem its investment in class B preferred special interest in Desarrolladora Del Norte, S. en C. for $32 million in cash and an $8 million non-interest bearing promissory note. The non-interest bearing promissory note requires annual payments of $800,000 through June 2023. Tourism Development Fund will condone annual payments if Desarrolladora Del Norte, S. en C. maintains it hotels operations in Puerto Rico with approximately 600 employees and complies with other requirements during the term of the contract. Management of the Tourism Development Fund understands that the collection of the promissory note is contingent on future events, therefore, the amounts under such promissory note will be recognized once they are collected.

During the year ended June 30, 2013, proceeds from sales and redemption of investments from all the proprietary funds amounted to approximately $7 billion. Gross gains and losses on sale and redemption of investments amounted to approximately $23.3 million and $19.9 million, respectively. Purchases of investments during the year ended June 30, 2013, amounted to approximately $4.8 billion.

All of the Bank's investments in U.S. Treasury securities, mortgage-backed securities guaranteed by GNMA, and Israel Aid Bonds carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities, mortgage-backed securities guaranteed by GNMA, and Israel Aid Bonds, at June 30, 2013, are as follows:

	Credit risk			
	Rating [1]			
Securities type	**AAA to A-**	**BBB**	**B**	**Total**
U.S. sponsored agencies notes:				
FNMA	$ 532,975,442	—	—	532,975,442
FHLB	451,586,612	—	—	451,586,612
FHLMC	284,736,700	—	—	284,736,700
FFCB	61,325,945	—	—	61,325,945
Mortgage-backed and asset-backed securities:				
FNMA	523,335,028	—	—	523,335,028
FHLMC	268,419,063	—	—	268,419,063
Interest-only strips	8,883,149	—	—	8,883,149
Other	367,650	—	73,914,011	74,281,661
Corporate debt	142,870,790	—	—	142,870,790
External investment pools:				
Fixed-income securities	124,274,852	—	—	124,274,852
Nonparticipating investment contracts	37,965,786	11,178,924	14,904,616	64,049,326
U.S. Municipal Notes	37,666,988	—	—	37,666,988
Total	$ 2,474,408,005	11,178,924	88,818,627	2,574,405,556

[1] Rating obtained from Standard & Poor's or equivalent rating by Moody's Investor Service or Fitch Ratings.

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2013, 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, 2013, 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	$ 291,297,208
Securities sold under agreements to repurchase	634,301,000

(7) Loans Receivable and Allowance for Loan Losses

Loans at June 30, 2013 consist of the outstanding balance of credit facilities granted to the following (in thousands):

	GDB Operating Fund [1]	Tourism Development Fund	Housing Finance Authority	Development Fund	Total
Public corporations and agencies	$ 6,889,134	—	—	—	6,889,134
Municipalities	2,212,481	—	—	—	2,212,481
Allowance for loan losses	(4,000)	—	—	—	(4,000)
Total loans to public sector	9,097,615	—	—	—	9,097,615
Private sector	39,935	376,361	360,014	21,259	797,569
Allowance for loan losses	(264)	(178,721)	(37,742)	(16,937)	(233,664)
Deferred fees	—	—	(26,430)	—	(26,430)
Total loans to private sector	39,671	197,640	295,842	4,322	537,475
Balance – end of year	$ 9,137,286	197,640	295,842	4,322	9,635,090

[1] Excluding loans to component units.

(a) Public Corporations and Agencies

Loans to the Commonwealth and its public entities amounted to approximately $6.9 billion or 48% of the Bank's government-wide total assets as of June 30, 2013. Loans to the Commonwealth and its public entities 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's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature.

The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public entities. Such loans may, however, also be repaid from the revenues of such public entities, from loans provided by sources other than the Bank, from federal grants, and from the sale of assets of such public entities. The amount of outstanding loans from the Bank to the public entities fluctuates annually, depending upon the capital program needs of the public entities, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of the Commonwealth and its public entities in the bond market has been delayed waiting for the credit rating of such entities to improve or for more favorable market conditions.

The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past fourteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's public entities have had losses from operations during the past years. These shortfalls were partially covered with loans from the Bank and other nonrecurring revenues. The collectability of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth, its public entities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its public entities to repay their outstanding loan balances with the Bank and accordingly, may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

For the year ended June 30, 2013, disbursements and collections of public sector loans with future bond issuances as source of repayment amounted to approximately $1.3 billion and $258 million, respectively. Public sector loans with Commonwealth appropriations as source of repayment had disbursements and collections amounting to approximately $474 million and $328 million, respectively during the year ended June 30, 2013. Public sector loans with operating income as source of repayment had disbursements and collections amounting to approximately $112 million and $22 million, respectively during the year ended June 30, 2013.

At June 30, 2013, loans to public corporations and agencies of the Commonwealth are repayable from the following sources (in thousands and segregated by the reporting category of each borrower as disclosed in the Commonwealth's audited financial statements of June 30, 2012):

	Source of repayment (in thousands)					
	Bond issuances	Operating revenue	Legislative appropriations	Other	Total	Percentage of Government wide total assets
Borrowers described as primary government in the Commonwealth's financial statements as of June 30, 2012:						
Treasury Department	$ 662,349	98,000	825,689	—	1,586,038	11.08%
Public Building Authority	268,967	—	67,311	—	336,278	2.35
Office of Management and Budget	—	—	212,131	—	212,131	1.48
Department of Education	—	—	110,365	—	110,365	0.77
Farm Services Administration	—	—	92,606	—	92,606	0.65
Others	—	33,166	314,771	—	347,937	2.43
Total	931,316	131,166	1,622,873	—	2,685,355	18.76
Borrowers described as discretely presented in the Commonwealth's financial statements as of June 30, 2012:						
Puerto Rico Highways and Transportation Authority	2,045,130	—	—	—	2,045,130	14.28
Special Communities Perpetual Trust	—	—	360,403	—	360,403	2.52
Puerto Rico Medical Services Administration	—	—	273,344	—	273,344	1.91
Puerto Rico Ports Authority	—	—	220,391	—	220,391	1.54
Port of the Americas Authority	—	—	215,389	—	215,389	1.50
Others	12,918	147,607	742,011	17,472	920,008	6.43
Total	2,058,048	147,607	1,811,538	17,472	4,034,665	28.18
Other borrowers affiliated to the Commonwealth not included in the Commonwealth's financial statements as of June 30, 2012:						
Municipal Revenue Collection Center	—	128,493	26,820	—	155,313	1.08
Others	—	—	13,801	—	13,801	0.10
Total	—	128,493	40,621	—	169,114	1.18
Total Commonwealth and public entities	$ 2,989,364	407,266	3,475,032	17,472	6,889,134	48.12%

During fiscal year 2013, the Bank received $65.1 million, $97.9 million and $62.4 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. The Commonwealth's general fund budget for fiscal year 2014 includes $65.7 million, $103.1 million, and $122.5 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA, from future issuances of Commonwealth's general obligations bonds, and other legislative appropriations, respectively. These appropriations are based on payment schedules proposed by the Bank, which are mostly based on a period of amortization of 30 years each, at contractual interest rates. The Bank will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. The Bank expects that future appropriations will be approved by the Legislature to comply with such schedules. However, there can be no assurance that the Director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank on these loans.

As of June 30, 2013, there are five loans amounting to approximately $98 million that the appropriations from the Commonwealth are not based on enacted legislation. However, management is of the opinion that not having an enacted legislation does not bear additional collectability risk based on the history of appropriations approved by OMB and the Legislature. Appropriations have been included in the fiscal year 2014 budget to repay the scheduled principal and interest of those five loans.

Total public sector loans and undisbursed loan commitments that were refinanced to extend maturity dates during the period ended June 30, 2013, amounted to approximately $3.8 million. No other modifications (i.e. interest rate reductions, etc.) were made during the year.

At June 30, 2013, loans to the Commonwealth and its public entities that its main source of repayment has changed are the following (in thousands and segregated by the reporting category of each borrower as disclosed in the Commonwealth's audited financial statements of June 30, 2012):

	Change in source of repayment (in thousands)					
	Bond issuances - previously operating revenue	Legislative appropriations – previously Common wealth's general obligation bond issuances	Legislative appropriations – previously COFINA	Legislative appropriations - previously operating income	Others	Total
Borrowers described as primary government in the Commonwealth's financial statements as of June 30, 2012:						
Treasury Department	$ —	196,887	465,443	—	—	662,330
Public Building Authority	52,871	—	67,177	—	—	120,048
Department of Education	—	4,801	105,564	—	—	110,365
Farm Services Administration	—	—	47,181	45,425	—	92,606
Others	—	213,562	22,073	289	—	235,924
Total	52,871	415,250	707,438	45,714	—	1,221,273
Borrowers described as discretely presented in the Commonwealth's financial statements as of June 30, 2012:						
Puerto Rico Highways and Transportation Authority	468,128	—	—	—	16,422	484,550
Special Communities Perpetual Trust	—	360,403	—	—	—	360,403
Puerto Rico Ports Authority	—	—	—	215,389	—	215,389
Others	—	345,340	41,653	—	6,634	393,627
Total	468,128	705,743	41,653	215,389	23,056	1,453,969
Other borrowers affiliated to the Commonwealth not included in the Commonwealth's financial statements as of June 30, 2012:						
Municipal Revenue Collection Center	—	—	26,820	—	—	26,820
Others	—	—	13,801	—	—	13,801
Total	—	—	40,621	—	—	40,621
Total Commonwealth and public entities	$ 520,999	1,120,993	789,712	261,103	23,056	2,715,863

Starting in fiscal year 2010, as part of its risk management activities and as a condition to provide financing support to certain public entities, the Bank has entered into fiscal oversight agreements with such public entities. The agreements require the public entities, among other, to implement a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the public entities, designed to minimize future tariff increases to households and the private sector, and to protect and improve the credit rating of the public entities, so that the public entities may obtain adequate financing to fund its capital expenditure requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. The Bank's agreement to provide current financing and any future financing is

expressly conditioned upon the public entities' compliance with the covenants established in the fiscal oversight agreement and the Bank's right to monitor and enforce such compliance. These agreements will be in effect until the public entities have regained a level of financial stability and are able to secure long-term financing that will result in the continued stability of the public entities' operations and financial condition. As of June 30, 2013, management of the Bank determined that all public entities have complied with the material terms and conditions of their respective agreements.

A public sector loan amounting to approximately $26.9 million as of June 30, 2013, was identified as delinquent and classified as nonaccrual. Interest income that would have been recorded if such nonaccrual loan had been accruing in accordance with its original terms was approximately $1.6 million in fiscal year 2013. No interest was collected on this loan during the year ended June 30, 2013.

As of June 30, 2013, the Bank has extended various credit facilities to the Puerto Rico Highways and Transportation Authority (HTA) for, among other things, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to approximately $2 billion, including accrued interest of $145 million, which represent 14% and 83%, of the Bank's total governmental-wide assets and net position, respectively, at June 30, 2013.

The Bank, in its ordinary course of business, provides interim lines of credit to public entities like HTA. These lines of credit have historically been repaid from bond issuances of public entities, once they regain or have access to the capital markets. HTA has reported net operating losses during each of the four fiscal years in the period ended June 30, 2013 and, as a result, the Bank has been partially financing its operations through credit facilities. In fiscal year 2010, HTA entered into a fiscal oversight agreement with the Bank, whereby the Bank, among other things, imposes conditions on the extensions of credit to HTA and continually monitors its finances. During February 2014, all the rating agencies, downgraded the credit rating of HTA to a noninvestment grade classification.

Managements of HTA and the Bank are working with various alternatives for HTA to gain access to the bond capital market, including, among others, a new trust indenture, revenue increasing measures, and expense reduction measures. As part of the measures taken by the Commonwealth to reduce the credit exposure the Bank has on HTA, Acts No. 30 and 31 were enacted effective July 1, 2013, and established an increase to the cigarettes and other tobacco derivatives tax. On June 25, 2013, the Act No. 30 was created by the Commonwealth of Puerto Rico and assigned to HTA all the revenues generated through the vehicle license fee. Also, the Act No. 31 was created by the Commonwealth to increase the petroleum tax revenues from $3.00 to $9.00 per petroleum barrel and the assignment of $20 million annually from cigarettes taxes. The revenues obtained from these taxes will be used to pay outstanding loans with the Bank.

During August 2013, HTA issued the 2013A bond anticipation notes amounting to $400 million. The proceeds from the bond anticipation notes were used to pay outstanding loans held by HTA with the Bank. In addition to the above, subsequent to June 30, 2013, the Bank has disbursed and collected approximately $89 million and $69.5 million, respectively related to loans of HTA.

Although management of the Bank anticipates that no losses of principal and interest will be incurred by the Bank with respect to most loans outstanding to the public entities at June 30, 2013, there can be no assurance that the Director of OMB will include amounts for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank by the Commonwealth or public entities requiring the Commonwealth's support, or that the proceeds from any future bond or note issuances by COFINA or certain public entities, will be sufficient to cover the outstanding amount due to the Bank at June 30, 2013.

(b) Municipalities Loans

Loans to municipalities amounted to approximately $2.2 billion or 15% of the Bank's government-wide total assets at June 30, 2013. For the year ended June 30, 2013, municipal sector loan disbursements and collections amounted to approximately $185 million and $169 million, respectively.

At June 30, 2013, loans to municipalities are repayable from the following sources (in thousands):

		Principal	Percentage of government wide total assets
Repayment source:			
Collections of property tax	$	1,402,099	9.79%
Collections of municipal sales and use tax		551,789	3.85
Operating revenues and other		258,593	1.81
Total	$	2,212,481	15.45%

These loans include approximately $1.4 billion at June 30, 2013, which are collateralized by a pledge of a portion of property tax assessments of each municipality. Loans pledged with property tax assessments include bonds and notes issued by Puerto Rico municipalities which are originated by the Bank as bridge financing until such financings can be packaged and securitized.

Loans to municipalities include $551.8 million at June 30, 2013, which are collateralized by a pledge of a portion of the municipal sales tax, which is deposited in special accounts with the Bank for the purpose of granting such loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality.

Loans to municipalities include $258.6 million at June 30, 2013, which were provided mainly as interim loans to finance capital expenditures that are payable from revenues to be generated from a specific revenue generating project associated with the loan or to cover operating losses. Once operating loans are approved and if the municipality is not servicing the debt with its own funds, the Bank informs the Municipal Revenue Collection Center (CRIM for its Spanish acronym) in order to withhold property taxes revenues and remit them directly to the Bank before they are distributed to

the municipalities. These loans include approximately $7.2 million which were previously payable from future issuances of the Commonwealth's general obligations and are currently payable from legislative appropriations.

Municipality loans amounting to approximately $1.5 million as of June 30, 2013, were identified as delinquent. No interest was collected on these loans during the year ended June 30, 2013.

(c) Private Sector Loans

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank, the Tourism Development Fund and the Development Fund to private enterprises in Puerto Rico, the activities of which are deemed to further the economic and tourism development of Puerto Rico. Loans to the private sector 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. These credit facilities, net of allowance for loan losses, amounted to approximately $537 million at June 30, 2013, of which approximately $296 million are mortgage loans for low and moderate-income housing units and approximately $198 million are for tourism projects.

Private sector loans classified as nonaccrual amounted to approximately $436 million at June 30, 2013. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $12.3 million in 2013.

The following is a summary of private sector loans considered to be impaired as of June 30, 2013, and the related interest income for the year then ended (in thousands):

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Development Fund	Total
Recorded investment in impaired loans:					
Not requiring an allowance for loan losses	$ 106	3,286	—	—	3,392
Requiring an allowance for loan losses	264	41,204	369,864	21,259	432,591
Total recorded investment in impaired loans	$ 370	44,490	369,864	21,259	435,983
Related allowance for loan losses	$ 264	30,668	178,721	16,937	226,590
Average recorded investment in impaired loans	376	58,389	396,708	19,317	474,790
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, 2013 (in thousands):

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Development Fund	Total
Balance – beginning of year	$ 4,264	39,191	239,947	10,700	294,102
Provision (credit) for loan losses		(755)	23,774	6,237	29,256
Write-offs	—	(1,196)	(85,000)	—	(86,196)
Recoveries	—	502	—	—	502
Balance – end of year	$ 4,264	37,742	178,721	16,937	237,664

During the year ended June 30, 2013, the Tourism Development Fund sold a loan receivable to a third party for $50 million. Cash collected during the period ended June 30, 2013, amounted to $40.3 million. The remainder of the amount due under the sales contract ($7.9 million) will be recognized as income when collected as such amount is contingent upon certain action on the part of the Tourism Development Fund. Thus, and based on the contingent nature of this portion of the sales contract, the Bank has reflected as an account receivable as of June 30, 2013 only the amount

actually collected after fiscal year end ($1.8 million) but before the issuance of these financial statements. Cash collected on such sale is presented in the statement of cash flows as part of the principal collected on other than housing program loans. During February 2014, a loan of the Tourism Development Fund was sold to a third party developer for $87.5 million.

(8) Due from Federal Government

The Housing Finance Authority, as a public housing 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 the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $140.8 million during the year ended June 30, 2013. This amount includes approximately $5.1 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2013, the amounts due from federal government under the HUD Programs fund amounted to approximately $1.1 million.

During the year ended June 30, 2013, the Housing Finance Authority expended approximately $25 million of HOME Program funds, of which approximately $9.9 million are due from the federal government as of June 30, 2013. In accordance with the Housing Finance Authority's accounting policies, the Housing Finance Authority has deferred the recognition of revenue of approximately $6.9 million due from the federal government as such amounts are not considered to be available. This amount has been recorded as deferred revenue in the accompanying balance sheet – governmental funds.

The New Secure Housing Program (the NSH Program) constituted an inter-governmental effort to provide long term hazard mitigation assistance to the Commonwealth by providing funding for relocation of eligible participants who were affected by Hurricane Georges in 1998 or who lived in hazard-prone areas under the FEMA Hazard Mitigation Grant Program (HMGP). Through a series of collaborative agreements, the Office of the Governor's Authorized Representative (the GAR) was named the grantee, the Puerto Rico Department of Housing (the DOH) was named the sub-grantee, and the Housing Finance Authority was named the administrator of the NSH Program.

Under the NSH Program, the Housing Finance Authority was responsible for administering the NSH Program, including contracting, supervising and paying the designers, inspectors, and legal services needed for the NSH Program. The Housing Finance Authority also provided all funding for the NSH Program through a $67 million nonrevolving line of credit with the Bank. The DOH was 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 NSH Program. Funds collected under the NSH 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 NSH Program's noncompliance with the scheduled dates for construction activities and case management. The DOH requested various extensions and reconsiderations the last one up to June 30, 2010 and FEMA granted such requests.

Although significant progress was made through June 30, 2010, in the construction activities and in the case management of the NSH Program, the Housing Finance Authority was not able to fully comply with the terms of the extensions granted by FEMA. On September 30, 2011, the Housing Finance Authority provided FEMA and the GAR, the NSH Program's closeout documentation which was reviewed by FEMA.

On January 30, 2012, the Housing Finance Authority and the DOH entered into a transition agreement by which the DOH would assume its obligations as the NSH Program sub-grantee and project owner, including vacant property dispositions, open space monitoring and other related matters. The Housing Finance Authority will continue to assume the amounts payable under the $67 million nonrevolving line of credit with Bank, until such debt can be assumed by the Commonwealth. The DOH would prospectively assume, without recourse, any additional funds that might be requested by FEMA for events of noncompliance, including related costs.

Based on all these facts and that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $26 million due from FEMA at June 30, 2013.

(9) Real Estate Available for Sale

Real estate available for sale at June 30, 2013, consisted of the following:

	Enterprise Funds		
	GDB Operating Fund	Housing Finance Authority	Total
Land	$ —	8,880,000	8,880,000
Residential (1–4 units)	—	15,027,613	15,027,613
Commercial	80,673,321	—	80,673,321
Valuation allowance	(25,995,052)	(12,990,815)	(38,985,867)
Total real estate available for sale	$ 54,678,269	10,916,798	65,595,067

The following is a summary of the valuation allowance activity for the year ended June 30, 2013:

		GDB Operating Fund	Housing Finance Authority	Total
Balance – beginning of year	$	23,016,563	11,272,729	34,289,292
Provision for possible losses		2,978,489	1,791,436	4,769,925
Write-offs		—	(73,350)	(73,350)
Balance – end of year	$	25,995,052	12,990,815	38,985,867

During fiscal year 2009, the Bank entered into an interagency agreement with a public entity 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. 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. On November 20, 2013, the agreement was extended until December 30, 2018.

Since 2009, management of the Bank has been able to: (i) sell certain of the properties, (ii) obtained appraisals reports of the properties, which had resulted in a decrease in the appraised values of certain of such properties, net of estimated selling costs, and (iii) collect a portion of the deficiency that results from losses on sales or the fair value reductions. Based on this, as of June 30, 2013, management maintains approximately $82.2 million of other receivables from the Commonwealth's agency at June 30, 2013, which have been recorded as a reduction of the carrying value of the properties (included within real estate available for sale in the accompanying government-wide statement of net position).

Furthermore, the Legislature included $7.5 million in the 2013-14 fiscal year general fund budget (through its Joint Resolution No. 17) which provides for the current payment of this account receivable. The Legislature is not obligated to authorize such appropriations in the subsequent fiscal years. However, should the Legislature fail to include such amount in fiscal years subsequent to June 30, 2014, the management of the Bank is of the opinion that it will receive properties or cash to cover such deficiency and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth's agency is needed at June 30, 2013.

The Housing Finance Authority maintained a line of credit of $50 million with a commercial bank to provide funds to the Department of Housing to finance the operations of the "Revitalización de Santurce" Program. The project's objective was to rehabilitate and redevelop the Santurce sector in the Municipality of San Juan through purchase and expropriations of properties for redevelopment of commercial and residential projects. The Housing Finance Authority entered into a collaborative agreement with the Department of Housing under which it would finance the property acquisition efforts under the Program. The funds for the Department of Housing's property expropriation efforts of real property were withdrawn from the line of credit. Once the property was acquired, the Department of Housing would immediately transfer ownership to the Housing Finance Authority to collateralize the line of credit. The Department of

Housing subsequently would enter into purchase agreements with developers that met the Program's underlying objectives. The proceeds of the sale of the properties to the developers would serve to repay the line of credit. However, due to the general real estate market conditions and lack of financing the projects under which conditioned purchase agreements were subscribed were no longer feasible. In turn, the Housing Finance Authority repaid the outstanding balance and retained title to the properties held in trust in lieu of payment amounting to $8,880,000 which are included as part of real estate available for sale in the accompanying statement of net position and balance sheet – proprietary funds.

(10) Capital Assets

Capital assets activity for the year ended June 30, 2013, was as follows:

	Governmental activities			
	Beginning balance	Additions	Reductions/ reclassifications	Ending balance
Capital assets:				
Information systems	$ 66,329	—	—	66,329
Office furniture and equipment	33,967	3,107		37,074
Vehicles	66,135	—	—	66,135
Total capital assets	166,431	3,107	—	169,538

	Governmental activities			
	Beginning balance	**Additions**	**Reductions/ reclassifications**	**Ending balance**
Less accumulated depreciation and amortization for:				
Information systems	$ (52,930)	(13,377)	—	(66,307)
Office furniture and equipment	(28,335)	(3,690)		(32,025)
Vehicles	(66,132)	—	—	(66,132)
Total accumulated depreciation	(147,397)	(17,067)	—	(164,464)
Capital assets governmental activities – net	$ 19,034	(13,960)	—	5,074

	Business type – activities			
	Beginning balance	**Additions**	**Reductions/ reclassifications**	**Ending balance**
Capital assets not being depreciated – land:				
Land	$ 11,725,000	—	(8,880,000)	2,845,000
Land under development	73,290,540	13,882,157	—	87,172,697
Total capital assets not being depreciated	85,015,540	13,882,157	(8,880,000)	90,017,697
Capital assets being depreciated:				
Building	8,988,048			8,988,048
Leasehold improvements	4,715,152	16,375	(48,208)	4,683,319
Information systems	4,222,025	546,725	(43,661)	4,725,089
Office furniture and equipment	2,741,206	145,754	(121,107)	2,765,853
Software	2,450,076	89,728	(40,526)	2,499,278
Vehicles	217,115	40,734	—	257,849
Total capital assets being depreciated	23,333,622	839,316	(253,502)	23,919,436
Less accumulated depreciation and amortization for:				
Building	(2,584,064)	(224,701)	—	(2,808,765)
Leasehold improvements	(2,617,841)	(494,274)	—	(3,112,115)
Information systems	(2,742,766)	(693,677)	43,661	(3,392,782)
Office furniture and equipment	(2,267,789)	(213,411)	121,107	(2,360,093)
Software	(1,731,515)	(433,219)	40,526	(2,124,208)

	Business type – activities			
	Beginning balance	Additions	Reductions/ reclassifications	Ending balance
Vehicles	$ (205,779)	(11,166)	—	(216,945)
Total accumulated depreciation and amortization	(12,149,754)	(2,070,448)	205,294	(14,014,908)
Total capital assets being depreciated – net	11,183,868	(1,231,132)	(48,208)	9,904,528
Capital assets business type activities – net	$ 96,199,408	12,651,025	(8,928,208)	99,922,225
Total capital assets – net				$ 99,927,299

Land under development represents property owned by the Bank that is being developed for future government benefit. Specifically, as part of its functions of furthering the economic development of Puerto Rico, the Bank is developing the infrastructure and public spaces of the "Comunidad Río Bayamón Norte" as per the Master Plan approved by the Puerto Rico Planning Board. The infrastructure development includes the construction of the roads, sidewalks, electric, sanitary and sewer systems and an urban park with recreational areas, clubhouse and tennis courts. As part of the development, the Bank is contributing to certain offsite improvements with the Puerto Rico Electric and Power Authority, the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and Transportation Authority. The development will have access to "Tren Urbano Jardines" Station. Accounts payable related to land under development as of June 30, 2013, amount to approximately $10.3 million.

(11) 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 $48 million during fiscal year 2013.

(12) Securities Sold under Agreements to Repurchase

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

Carrying amount at June 30, 2013	$ 634,301,000
Maximum amount outstanding at any month-end	1,359,396,959
Average amount outstanding during the year	801,512,614
Weighted average interest rate for the year	0.54%
Weighted average interest rate at year-end	0.15

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2013:

		Beginning balance	Issuances	Maturities	Ending balance
GDB Operating Fund	$	884,484,334	30,009,620,496	30,259,803,830	634,301,000

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, 2013, the total amount of securities sold under agreements to repurchase mature within one year.

(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, 2013, is as follows:

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities – commonwealth appropriation bonds and notes – note payable – AHMSP Act. No. 124	$	3,500,735	—	—	3,500,735	—
Add unamortized premium		74,656	—	3,728	70,928	—
Less deferred loss on refunding		(148,525)	—	(7,426)	(141,099)	—
Total governmental activities	$	3,426,866	—	(3,698)	3,430,564	—

		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:						
GDB Operating Fund:						
Remarketed Refunding Bonds	$	267,000,000	—	—	267,000,000	—
Senior Notes 2006 Series B		302,695,000	—	(66,205,000)	236,490,000	68,785,000
Senior Notes 2006 Series C		81,960,000	—	—	81,960,000	—
Senior Notes 2010 Series A		433,702,000	—	—	433,702,000	—
Senior Notes 2010 Series B		151,259,000	—	—	151,259,000	—
Senior Notes 2010 Series C		217,715,000	—	—	217,715,000	—
Senior Notes 2010 Series D		96,411,000	—	—	96,411,000	—
Senior Notes 2011 Series A		70,000,000	—	—	70,000,000	70,000,000
Senior Notes 2011 Series B		650,000,000	—	—	650,000,000	250,000,000
Senior Notes 2011 Series C		153,000,000	—	(153,000,000)	—	—
Senior Notes 2011 Series D		100,300,000	—	(100,300,000)	—	—
Senior Notes 2011 Series H		1,399,045,000	—	—	1,399,045,000	—

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Senior Notes 2011 Series I	$ 397,935,000	—	—	397,935,000	—
Senior Notes 2012 Series A	1,000,000,000	—	—	1,000,000,000	—
Add (deduct) unamortized premium (discount)	(6,020,249)	—	169,220	(5,851,029)	126,392
Total senior notes	5,315,001,751	—	(319,335,780)	4,995,665,971	388,911,392
Notes payable Scotiabank	250,000,000	500,000,000	(750,000,000)	—	—
Total GDB Operating Fund	5,565,001,751	500,000,000	(1,069,335,780)	4,995,665,971	388,911,392
Housing Finance Authority:					
Mortgage Trust III	166,025,002	—	(18,175,000)	147,850,002	23,530,000
Revenue bonds:					
Single Family Mortgage Revenue Bonds – Portfolio XI	17,555,000	—	(955,000)	16,600,000	325,000
Homeownership Mortgage Revenue Bonds 2000	41,370,000	—	(41,370,000)	—	—
Homeownership Mortgage Revenue Bonds 2001	42,275,000	—	(42,275,000)	—	—
Homeownership Mortgage Revenue Bonds 2003	20,180,000	—	(20,180,000)	—	—
Mortgage-Backed Certificates – 2006 Series A	102,929,440	—	(9,466,397)	93,463,043	11,110,260
Total revenue bonds	224,309,440	—	(114,246,397)	110,063,043	11,435,260
Subtotal	390,334,442	—	(132,421,397)	257,913,045	34,965,260
Notes payable:					
GDB (operations and administration)	3,129,245	99,301,562	(102,430,807)	—	—
Special obligation notes (Home Purchase Stimulus Program)	46,990,000	30,475,000	(1,020,400)	76,444,600	—
Special obligation notes (Third Party Origination Program)	—	38,000,000	(8,223,045)	29,776,955	866,173
Plus unamortized premium	423,605	—	(54,280)	369,325	—
Less unaccreted discount and deferred amount on refunds	(69,825,611)	(18,313,856)	14,932,750	(73,206,717)	—
Total Housing Finance Authority	371,051,681	149,462,706	(229,217,179)	291,297,208	35,831,433
Tourism Development Fund:					
Participation agreement payable	25,205,556		(866,667)	24,338,889	866,664
Notes payable to GDB	406,649,968	15,108,053	(90,000,000)	331,758,021	246,758,048
Total Tourism Development Fund	431,855,524	15,108,053	(90,866,667)	356,096,910	247,624,712
Total	6,367,908,956	664,570,759	(1,389,419,626)	5,643,060,089	672,367,537

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Less intrafund eliminations	$ (409,779,213)	(114,409,615)	192,430,807	(331,758,021)	(246,758,048)
Total business-type activities	$ 5,958,129,743	550,161,144	(1,196,988,819)	5,311,302,068	425,609,489

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, 2013, are as follows:

	GDB Operating Fund			
	Business-type activities			
	Principal	Interest	Interest subsidy [1]	Total
Years ending June 30:				
2014	$ 388,785,000	218,029,018	(4,875,949)	213,153,069
2015	480,770,000	212,339,143	(4,984,359)	207,354,784
2016	876,040,000	184,745,576	(4,984,359)	179,761,217
2017	269,195,000	156,495,318	(4,984,359)	151,510,959
2018	237,490,000	138,216,665	(4,984,359)	133,232,306
2019-2023	1,834,002,000	367,062,194	(24,921,794)	342,140,400
2024-2027	915,235,000	57,431,541	(11,214,807)	46,216,734
Total	$ 5,001,517,000	1,334,319,455	(60,949,986)	1,273,369,469

(1) The GDB Senior Notes Series 2010 B and 2010 D were issued as Build America Bonds. The Bank will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment. Subsidy payment from November 1, 2013 will be subject to sequestration of 8.7% from IRS due to adjustments to the Federal Government budget. As of June 30, 2013, total receivable from federal government amounted to approximately $806,000.

	Housing Finance Authority			
	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
Years ending June 30:				
2014	$ —	195,620	35,831,433	6,770,226
2015	—	195,620	37,090,747	6,253,210
2016	103,049	192,958	18,540,658	5,772,175
2017	83,595	190,022	34,261,408	5,317,675
2018	86,478	186,839	21,002,461	4,883,610
2019-2023	487,614	874,753	93,235,469	29,256,638
2024-2028	1,231,900	735,218	41,950,439	33,081,615
2029-2033	1,508,099	98,086	32,063,033	22,098,247
2034-2038	—	—	28,640,881	12,614,904
2039-2043	—	—	21,518,071	2,565,785
Total	$ 3,500,735	2,669,116	364,134,600	128,614,085

	Tourism Development Fund (2)	
	Business-type activities	
	Principal	Interest
Years ending June 30:		
2014	$ 866,664	708,481
2015	866,667	682,757
2016	866,667	657,033
2017	866,667	631,309
2018	866,667	605,585
2019	20,005,557	—
Total	$ 24,338,889	3,285,165

(2) Debt service requirements of this variable-rate debt assume that the interest rate effective at June 30, 2013 remains the same throughout the term of the debt.

(a) Governmental Activities

Bonds and notes payable of governmental activities as of June 30, 2013, consist of the following:

Description and maturity date	Interest rate	Amount outstanding
Note payable AHMSP Act No. 124 due on August 1, 2016 and each August 1, thereafter to August 1, 2031	3.10%–6.50%	$ 3,430,564

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 AHMSP Act No. 124 note payable of the Housing Finance Authority, as authorized by Act No. 164 of December 17, 2001. PFC acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds (the PFC Bonds). The PFC Bonds were issued under certain trust indentures whereby the Public Finance Corporation pledged 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 (consisting of 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 recognized a mirror effect of this advance refunding by the Public Finance Corporation on its own notes payable in proportion to the portion of the Housing Finance Authority's note 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 outstanding balance of this note at June 30, 2013, was $3,500,735 and matures on August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by PFC on all the PFC Bonds issued by PFC under Act No. 164.

(b) Business-Type Activities

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

Description and maturity date	Interest rate	Carrying amount
Remarketed Refunding Bonds – December 1, 2015	4.75%	$ 267,000,000
GDB Senior Notes :		
Series 2006 B – Each December 1 until December 1, 2017	5.00	237,691,768
Series 2006 C – January 1, 2015	5.25	82,583,081
Series 2010 A – August 1, 2020	5.50	433,702,000
Series 2010 B – August 1, 2025	5.75	151,259,000
Series 2010 C – August 1, 2019	5.40	217,715,000
Series 2010 D – August 1, 2025	5.75	96,411,000
Series 2011 A – April 1, 2014	3.90	70,000,000
Series 2011 B – May 1, 2014 and May 1, 2016	3.67–4.704	650,000,000
Series 2011 H – August 1, 2015, August 1, 2017, August 1, 2019, Each August 1, from 2021 to 2023, and August 1, 2026	3.80–5.20	1,399,045,000
Senior 2011 I – August 1, 2014 and August 1, 2018	3.375–4.35	394,096,704
Senior 2012 A – February 1, 2015, February 1, 2017 and February 1, 2019	3.448–4.375	996,162,418
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2013	Zero Coupon	13,040,000
Each July 1 and January 1 until January 1, 2021	Zero Coupon	104,647,679
Single Family Mortgage Revenue Bonds – Portfolio XI – each December 1 and June 1 until December 1, 2039	3.460%–5.45%	16,600,000
Mortgage-Backed Certificates, 2006 Series A – Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955%–6.560%	83,515,523
Special Obligation Notes, 2010 Series A and B – Principal and interest payable monthly from July 1, 2019 to May 1, 2040	6.96%-6.974%	17,711,959
Special Obligation Notes, 2011 Series A – Principal and interest payable monthly from September 1, 2021 to September 1, 2041	7.000%	10,024,207
Special Obligation Notes, 2012 Series A – Principal and interest payable monthly from June 18, 2022 to September 1, 2041	7.000	15,980,885
Special Obligation Notes, 2012 Series A – Principal and interest payable monthly from August 15, 2012 to August 15, 2032	5.875	29,776,955
Total		$ 5,286,963,179

(c) Mortgage Trust III

On July 2011, the Housing Finance Authority restructured the outstanding bonds of the Mortgage Trust III with a carrying amount of approximately $425 million. The restructuring took place as follows: 1) tender offer amounting to approximately $144 million (including expenses related to the transaction) to acquire and cancel bonds with a carrying amount of approximately $112 million, and 2) purchase AAA securities amounting to approximately $160 million to establish an escrow account for the payment through maturity of bonds with a carrying amount of approximately $129 million. As a result of the transaction, the Housing Finance Authority recognized a loss on early extinguishment of debt, of approximately $28.8 million. In connection with this transaction the Housing Finance Authority also redeemed at carrying value approximately $163 million in bonds held by the Bank. The restructuring released $60 million in excess collateral which were transferred by the trustee of the Housing Finance Authority.

(d) Special Obligation Notes, 2012 Series A

During the year ended June 30, 2013, the Housing Finance Authority issued $30.5 million of Special Obligation Notes. These notes are collateralized by certain second mortgages originated under the Home Purchase Stimulus Program. These notes will be repaid from collections of principal and interest of the underlying collateral, net of servicing and guarantee fees. The second mortgage loans are guaranteed by the Authority's mortgage insurance fund created by Act No. 87. See note 14.

(e) Homeownership Mortgage Revenue Bonds

On April 24, 2013, the Housing Finance Authority repaid bonds with a book value of approximately $99.3 million through the sale of investments that were held as collateral for such bonds. The Housing Finance Authority recorded a loss on early extinguishment of bonds payable of approximately $1.1 million in the accompanying statement of activities. In this transaction, the Housing Finance Authority was able to release approximately $16.3 million in excess collateral.

(f) Special Obligation Notes, 2012 Series A

On July 24, 2012, the Housing Finance Authority issued general obligation bonds, amounting to $38 million secured by mortgage-backed securities amounting to $34 million. The principal of and interest on the bonds will be payable by the Authority regardless of the performance of the mortgage loan collateral. The notes will carry a 5.875% annual interest rate paid monthly. The notes are subject to a redemption schedule that ranges from 100% to 103% on or after the second throughout the fifth anniversary of the date of issuance.

(g) 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 outstanding bonds, accelerated the payment of the bonds 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 statement of net position and balance sheet – proprietary funds.

The Participation bears a variable interest rate based on the three month LIBOR plus 2.7826%, until maturity on July 1, 2018. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $24.3 million as of June 30, 2013.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2013, follows:

Balance – beginning of period	$	15,194,343
Additions		3,415,377
Balance – end of period	$	18,609,720

The activity for compensated absences included within accounts payable and accrued liabilities during the year ended June 30, 2013, follows:

		Beginning balance	Provision	Reductions	Ending balance	Due within one year
Vacation	$	2,671,195	2,839,263	3,135,405	2,375,053	1,945,268
Sickness		2,447,604	1,672,201	1,803,465	2,316,340	443,748
Total	$	5,118,799	4,511,464	4,938,870	4,691,393	2,389,016

Compensated absences are available to be liquidated by the employees during the year. Amounts due within one year are estimated based on history of reductions.

(14) Mortgage Loan Insurance Fund

The Mortgage Loan Insurance fund was created by Act No. 87 of June 25, 1965, as amended, known as the Mortgage Loan Insurance. This act provides mortgage credit insurance to low and moderate-income families on loans originated by the Housing Finance Authority and other financial institutions. This activity can be increased through legislative appropriations, if and when needed, and derives its revenue from premiums charged to the borrowers, interest on investments, and sales of properties acquired through foreclosure. The Housing Finance Authority manages the risk of loss of its mortgage loan insurance activities by providing its insurance program only to financial institutions that (1) maintain certain defined minimum capital, (2) are qualified based on experience and resources, (3) perform certain collection efforts, and (4) comply with established procedures and requirements. In addition, the Housing Finance

Authority requires certain loan-to-value ratios on loans insured and recording of the collateral in the property registry of the Commonwealth.

Additionally, the Housing Finance Authority created the Puerto Rico Housing Administration program, known in Spanish as "FHA Boricua", expanding requirements and parameters under the existing act. The program allows citizens, paying an annual insurance premium, to originate mortgage loans with up to a 98% loan-to-value ratio. The program insures participating lending institutions in events of foreclosure. The program is financed through annual insurance premiums, commitment and transaction fees, and proceeds from any sale of foreclosed real estate. The program also requires participants to comply with various eligibility requirements.

The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2013, the mortgage loan insurance program covered loans aggregating to approximately $508 million.

The mortgage insurance loan total premium and investment income for the years ended June 30, 2013, are as follows:

Mortgage loan insurance premiums	$	4,932,860
Investment income		624,227
Total	$	5,557,087

The regulations adopted by the Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance Fund. At June 30, 2013, the Housing Finance Authority had restricted net position for such purposes of approximately $64.9 million.

The summary of the activity in the allowance for losses on mortgage loan insurance for the year ended June 30, 2013, is as follows:

Balance – beginning of year	$	4,299,046
Provision for losses on mortgage loan insurance		885,481
Claims paid		(2,001,793)
Recoveries		2,001,793
Balance – end of year	$	5,184,527

(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 position and fund balance sheet. 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, 2013, the off-balance-sheet risks consisted of the following (in thousands):

Financial instruments whose credit risk is represented by contractual amounts:		
Financial guarantees – Private sector	$	596,537
Standby letters of credit – Public sector		1,328,927
Commitments to extend credit – Public sector		1,358,305
Commitments to extend credit – Private sector		94,856

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2013:

		Beginning balance	Provision	Payments/ reductions	Ending balance	Due within one year
Tourism Development Fund	$	91,931,326	155,913,928	—	247,845,254	23,940,462
Development Fund		1,030,000	13,628,225	365,518	14,292,707	4,692,825
Total	$	92,961,326	169,542,153	365,518	262,137,961	28,633,287

On September 22, 2011, Autopistas Metropolitanas de Puerto Rico, LLC (Metropistas) and HTA, a component unit of the Commonwealth, entered into a concession agreement (the Concession Agreement) of toll roads PR-22 and PR-5 (the Toll Roads). In connection with this transaction, the HTA received in exchange for the right to operate the Toll Roads a lump-sum payment of $1.1 billion and a commitment to make immediate improvements to the Toll Roads amounting to $56 million and to comply with world-class operating standards which may require to invest to more than $600 million over the life of the concession.

In connection with the closing of the concession of the Toll Roads, the Bank executed a payment guarantee (the Guaranty) in favor of Metropistas pursuant to which it acts as guarantor of any "Termination Damages" due and payable in cash by the HTA under the Concession Agreement. For purposes of the Concession Agreement, "Termination Damages" refers to a payment that would arise if Metropistas elects to terminate the Concession Agreement as a result of: (i) an action that appropriates or sequesters all or a material part of the Toll Roads, the revenues derived there from and Metropistas' interest therein (or any of them) or materially impedes, substantially frustrates or renders impossible Metropistas' ability to perform its obligations for 90 consecutive days; and (ii) a material default by the HTA that is not remedied within the allowed grace periods. In both cases, the amount of Termination Damages would consist of: (a) the fair market value of Metropistas interest in the Toll Roads, plus (b) any compensation payable under the terms of the Concession Agreement for the period between the date of the occurrence of the event that gives rise to the Termination Damages and the termination date, such as loss of revenues and other documented losses; plus (c) out-of-pocket costs and expenses incurred by Metropistas as a result of the termination; less (d) insurance proceeds paid or payable to Metropistas (or which would have been payable to Metropistas but for a breach by Metropistas of the insurance policy or a requirement under the Concession Agreement to maintain insurance or the insolvency of the insurer). Termination Damages covered under the Guaranty also include the HTA's obligation to pay Metropistas the lesser of the fair market value of the concession or the unamortized concession fee if (i) the Concession Agreement is rescinded or terminated as a result of a conviction or guilty plea by Metropistas, its subsidiaries or its executives of a crime referred to in Act No. 458 of December 29, 2000, as amended to the extent such crime was not committed in connection with the procurement of the Concession Agreement, or (ii) Metropistas is convicted with respect to a crime under Act No. 237 of August 31, 2004, as amended, or Act No. 84 of June 18, 2002, as amended.

In connection with the Guaranty, on September 22, 2011, the Bank and the HTA entered into a Reimbursement Agreement (the Reimbursement Agreement) whereby the HTA agreed to reimburse the Bank any amounts paid under the Guaranty. Under the Reimbursement Agreement, in order to reimburse the Bank fully for any payments made under the Guaranty, the HTA is required to issue bonds secured by the revenues generated by the Toll Roads within one year from the effective date of a termination of the Concession Agreement requiring the payment of Termination Damages. On September 22, 2011, the HTA approved the bond resolution under which such bond issue would be authorized. Pending such bond issues, the reimbursement obligation will be secured by the revenues of the Toll Roads generated after the termination of the Concession.

On January 19, 2012, the Boards of Directors of the Bank and the Development Fund approved a loan guarantee program (the Guarantee Program) to stimulate lending by private banks to businesses in Puerto Rico in order to promote job creation and economic development in Puerto Rico. On April 3, 2012, the Bank, the Development Fund and certain participating banks entered into guarantee and commitment and funding agreements in which the Development Fund will guarantee eligible loans made by those banks to eligible businesses up to a maximum of 30% of the principal amount of the loans, in accordance with criteria established in the Guarantee Program. The Bank has committed to provide up to $200 million to the Development Fund to enable it to honor payments related to guarantees issued under the Guarantee Program. The Guarantee Program had a term of one year, and it ended on April 2, 2013. As of June 30, 2013, total guarantees amounted to approximately $56 million. The guarantee issued for each loan is in effect for a maximum term of seven years.

On July 24, 2013, Aerostar Airport Holdings, LLC (Aerostar) and the Puerto Rico Ports Authority (the Ports Authority) entered into a lease agreement (the Lease Agreement) of Luis Muñiz Marín International Airport (the Airport), for a term of forty years. In connection with the lease of the Airport, the Bank executed a payment guarantee (the Bank Guaranty) in favor of Aerostar for any "Termination Damages" due and payable in cash by the Ports Authority under the Lease Agreement. In accordance with the Bank Guarantee, Aerostar has the right to terminate the Lease Agreement mainly under three different noncompliance scenarios on the part of the Ports Authority.

First, if Aerostar has the right to terminate this Agreement in connection with an "Adverse Action" or "AA", as defined in the Lease Agreement, and Aerostar has exercised such right, the Lease Agreement, subject to certain conditions specified in the Lease Agreement, shall terminate 120 days following the date of receipt of the AA-Notice by the Ports Authority, and on the "Reversion Date" the Ports Authority shall pay an amount (which amount shall be paid from general Ports Authority's funds and not from Airport revenues) equal to the aggregate, without duplication, of (i) the Airport "Facility Leasehold Value", as defined, as of the date of termination (which shall be determined as if no Adverse Action has occurred), plus (ii) the reasonable out-of-pocket and documented costs and expenses incurred by Aerostar as a direct result of such termination, plus (iii) the "Leasehold Compensation" calculated for the period between the date of the Adverse Action and the Reversion Date, less (iv) any insurance or condemnation proceeds payable to Aerostar (or that should have been payable to Aerostar but for (x) the insurer's inability to pay, (y) the breach by Aerostar of an obligation to take out or maintain insurance under the Lease Agreement or (z) the invalidity or breach of any insurance policy caused by Aerostar under which such policy proceeds would have been paid) with respect to all or any portion of the Airport as a result of the occurrence of such Adverse Action (collectively, the AA-Termination Damages) to the Aerostar on the Reversion Date or, if the AA-Termination Damages are determined on a date subsequent to the Reversion Date, then not later than 60 days following the date of determination of the AA Termination Damages, including interest; provided that, subject to the right of Aerostar to receive interest from the Reversion Date to the date on which payment is made, the Ports Authority may defer any such payment for an additional 120 days if it reasonably determines that such additional period is necessary to obtain financing or required approvals to make such a payment, as specified in the Lease Agreement.

Secondly, if termination relates to a default (a Default) on the part of the Ports Authority, that is, in accordance with Section 16.2 (b) (ii) or Section 16.2 (b) (iii) of the Lease Agreement, the Ports Authority shall be obligated to pay on the Reversion Date to Aerostar an amount (which amount shall be paid from general Ports Authority's funds and not from Airport revenues) equal to the aggregate, without duplication, of (i) the Airport "Facility Leasehold Value" as of the date of termination, plus (ii) the reasonable out-of-pocket and documented costs and expenses incurred by Aerostar as a direct result of such termination, plus (iii) the "Leasehold Compensation" calculated for the period between the date of the Ports Authority's Default and the date of termination, less (iv) any insurance or condemnation proceeds payable to Aerostar (or that should have been payable to Aerostar but for (x) the insurer's inability to pay, (Y) the breach by Aerostar of an obligation to take out or maintain insurance under the Lease Agreement or (2) the invalidity or breach of any insurance policy caused by Aerostar under which such policy proceeds would have been paid) with respect to all or any portion of the Airport as a result of the occurrence of such Ports Authority's Default (collectively, the AD-Termination Damages) to Aerostar or, if the AD Termination Damages are determined on a date subsequent to the Reversion Date, then not later

than 60 days following the date of determination of the AD-Termination Damages, including interest; provided that, subject to the right of Aerostar to receive interest from the Reversion Date to the date on which payment is made, the Ports Authority may defer any such payment for an additional 120 days if the Ports Authority reasonably determines that such additional period is necessary to obtain financing or required approvals to make such a payment, as specified in the Lease Agreement.

Thirdly, and as general provision, the Lease Agreement may be rescinded in accordance with Section 16.6 of the Lease Agreement which relates to termination pursuant to conviction or the entering of a plea of guilty in respect to any Act No. 458 Crime. If the Lease Agreement is rescinded or terminated pursuant to Section 16.6 (a) or (b) and, in the case of a rescission caused by the conviction or the entering of a plea of guilty for an Act No. 458 Crime, such crime was not committed in connection with the procurement of the Lease Agreement, then the Ports Authority shall be obligated to pay to Aerostar an amount equal to the lesser of (i) the Airport "Facility Leasehold Value" and (ii) the "Unamortized Leasehold Fee", in each case calculated as of the "End Date", all terms as defined, (the PIC-Termination Damages); provided that, (x) subject to the right of Aerostar to receive interest from the End Date to the date on which payment is made, the Ports Authority may defer any such payment for an additional 120 days if the Ports Authority reasonably determines that such additional period is necessary to obtain financing or required approvals to make such payment, as specified in the Lease Agreement.

(16) Retirement System

(a) Defined Benefit Pension Plan

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

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

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

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

Commonwealth's 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 to contribute 10.275% of each participant's gross salary. On April 4, 2013, the Legislature enacted Act. No. 3 which amended Act No. 447 to establish a new retirement program.

(b) 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 to contribute 10.275% 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. On April 4, 2013, the Legislature enacted Act. No. 3 which amended Act No. 305 to establish a new retirement program.

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.

(c) Defined Contribution Hybrid Program

On April 4, 2013, the Legislature enacted Act. No. 3 which amended Act No. 447 and Act. No. 305 to establish, among other things, a defined contribution hybrid program (the Hybrid Program) to be administered by the Retirement System. All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit pension plan and the defined contribution plan, and were rehired on or after July 1, 2013, become members of the Hybrid

Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous plans will become part of the Defined Contribution Hybrid Program.

Participants in the defined benefit pension plan who as of June 3, 2013, were entitled to retire and receive some type of pension, may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants who as of June 30, 2013, have not reached the age of 58 and completed 10 years of service or have not reached the age of 55 and completed 25 years of service can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Participants in the defined contribution plan who as of June 30, 2013, were entitled to retire because they were 60 years of age may retire on any later date and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program. Participants in the Program who as of June 30, 2013, have not reach the age of 60 can retire depending on the new age limits defined by the Hybrid Program and will receive the annuity corresponding to their retirement plan, as well as the annuity accrued under the Hybrid Program.

Act. No. 3 requires employees to contribute ten percent (10%) of their monthly gross salary to the Hybrid Program. Employee contributions are credited to individual accounts established under the Hybrid Program. In addition a mandatory contribution equal to or less than point twenty five percent (0.25%) is required for the purchase of disability insurance.

The Bank is required to contribute 12.275% of each participant's gross salary. The Retirement System will use these contributions to increase its level of assets and to reduce the actuarial deficit. Beginning on July 1, 2013, and up until June 30, 2016, the employer's contribution rate shall be annually increased by one percent (1%). Beginning July 1, 2016, and up until June 30, 2021, the employer's contribution rate that is in effect on June 30 of every year shall be annually increased on every successive July 1st by one point twenty-five percent (1.25%).

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. In case of the pensioner's death the designated beneficiaries will continue receiving the monthly benefit until the contributions of the participant are completely consumed. In case of the participants in active service a death benefit will be paid in one lump sum in cash to the participant's beneficiaries. Participants with a balance of less than $10,000 or less than five years of computed services at retirement will receive a lump-sum payment. In case of permanent disability the participants have the option of receiving a lump sum or purchasing an annuity contract.

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2013, amounted to approximately $615,000 and $966,000, respectively. The Bank's contributions during the years ended June 30, 2013, 2012 and 2011 amounted to approximately $2,142,000, $1,830,000, and $1,731,000, 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.

Employee and Bank's contributions to the defined contribution hybrid program will commence on fiscal year 2014.

Additional information on the Retirement System is provided on its standalone financial statements for the year ended June 30, 2012, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico, P.O. Box 42004, San Juan PR 00940-2004.

(17) Early Retirement Programs

From time to time the Bank extends to its employee's voluntary early retirement programs. During the year ended June 30, 2013, a program was approved by the Bank's Board of Directors and provided two election periods that ended on October 30, 2012 and December 14, 2012 based on provisions established on Act. No. 70, which was enacted July 2, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. Act. No. 70 only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans. The extensions of Act No. 70 approved by the Bank's Board of Directors provides the following:

- The employee will receive an annuity based on the years of service credited by the Retirement System. Employees with fifteen years of service will receive 37.5% of the salary in effect at the election period. The percent will increase 2.5% each year until nineteen years of service. Employees with years of service between twenty and twenty nine will receive an annuity of 50%.
- The Bank is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Retirement System until each employee is eligible for retirement based on the normal requirements of the defined benefit pension plan or the defined contribution pension plan.
- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.
- The employee will receive the benefits of health and dental insurance for a period of one year.

The number of employees who have voluntarily separated from employment under the provisions of Act No. 70 were three during the year ended June 30, 2013. Payments of such voluntary termination plans are expected to be made until June 30, 2020. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of return of unpledged investments.

During the fiscal years 1995, 2000 and 2007, the Bank's Board of Directors authorized early retirement's programs for certain Bank's employees, subject to different eligibility provisions that are detailed in the corresponding laws signed by the Governor of the Commonwealth. The costs incurred and accounted during the year ended June 30, 2013, consisted principally of the incremental actuarial costs, if any, of retiring earlier than under the original retirement plan to cover the costs of the medical and life insurance plans for such employees until reaching certain age. As of June 30, 2013, the number of employees still benefiting from such voluntarily separation programs are approximately 210. Employer contributions to

the medical and life insurance plans for the applicable period were discounted based on management best estimate of the expected long-term plan performance.

During fiscal year 2013, total cost related to these early termination benefits amounted to approximately $4.3 million. As of June 30, 2013, the total liability related to these termination benefits was approximately $18.5 million. Payments of such voluntary termination plans are expected to be made until June 30, 2021.

The Bank's contributions to the early retirement programs during the years ended June 30, 2013, amounted to approximately $2,620,000. These amounts represented 100% of the required contribution for the corresponding year.

(18) Risk Management

To minimize the risk of loss, the Bank purchases insurance coverage for public liability, hazard, automobile, crime, and bonding as well as 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 of the Commonwealth. 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.

(19) Commitments and Contingencies

(a) Lease Commitments

The Bank leases office and storage space from the governmental and private sectors. Principally, office space is leased under a short-term operating lease agreement that renews automatically every year, if it is not canceled by any of the parties before the beginning of each year. The storage space agreement expires in July 2016. During fiscal year 2010, the Bank entered into a lease agreement with the Puerto Rico Industrial Development Company (PRIDCO) for office space in PRIDCO's New York Office. This agreement expires in 2022.

The Housing Finance Authority entered into a 30-year lease agreement with the DOH 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. DOH 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 2013 amounted to approximately $2.8 million. At June 30, 2013, the minimum annual future rentals under noncancelable leases are approximately as follows:

		Amount
Year ending June 30:		
2014	$	2,874,000
2015		2,881,000
2016		2,889,000
2017		2,590,000
2018		2,594,000
Thereafter		47,783,000
Total	$	61,611,000

(b) Cooperative Development Investment Fund

On August 18, 2002, the Legislature approved Act 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, 2013, the Bank has contributed $19.3 million, including interests to the Cooperative Development Investment Fund, $1.4 million of which were contributed during the year ended June 30, 2013.

(c) 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.

(d) 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 $15 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. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000.

In addition the Bank, the Development Fund, and certain participating banks enter into guarantee and commitment and funding agreements (the Guarantee Program) in which the Development Fund guarantees eligible loans made by such banks to eligible businesses up to a maximum of 30% of the principal amount of the loans. The Guarantee Program started on April 3, 2012 and ended on April 3, 2013. As of June 30, 2013 guarantees amounted to approximately $56 million.

At June 30, 2013, the outstanding balance of loans guaranteed by the Development Fund amounted to approximately $6.6 million and the allowance for losses on guarantees amounted to approximately $664,000 thousands.

(e) 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, 2013, the principal balance of the mortgage loans serviced for others is approximately as follows:

Puerto Rico Community Development Fund I	$	42,750,000
R-G Mortgage, Inc. or its successor		1,315,586
CRUV or its successor without guaranteed mortgage loan payments		28,375
Total	$	44,093,961

(f) HOME Program

The U.S. Office of Inspector General (OIG) has performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for ineligible purposes. OIG identified in its examinations disallowed costs amounting to approximately $18.3 million. The Authority recorded a contingency for such disallowed costs amounting to approximately $14.3 million. On May 2013, the Authority entered into a three year repayment plan, starting on August 1, 2013, with HUD to return HOME funds amounting to approximately $1.8 million that were determined to be disallowed costs within the $18.3 million discussed above. The Authority also recorded a contingency amounting to approximately $6.1 million for additional amounts identified internally that could be deemed as disallowed costs by HUD.

(g) Litigation

The Bank and certain of 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.

(20) Conduit Debt and Programs Sponsored by the Housing Finance Authority

The Public Finance Corporation has issued approximately $8.1 billion of Commonwealth appropriation bonds (the Bonds) maturing at various dates through 2033. The proceeds of the Bonds, except for approximately $4.6 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 $4.6 billion referred to above was used to refund a portion of certain bonds issued by the Public Finance Corporation between fiscal years

1995 and 2005. The outstanding balance of the Bonds at June 30, 2013 amounted to approximately $1.1 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 Promissory Notes. The 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 conduit debt. Neither the Bonds nor the Notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

Certain bonds of the Housing Finance Authority are considered conduit debt as more fully described in Note 2. At June 30, 2013, 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	$	797,414
Restricted liabilities (conduit debt)		(797,414)
Restricted fund balance	$	—

On 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 conduit debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to $468,505,000 at June 30, 2013.

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 Housing Finance 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 $319,900,000 at June 30, 2013. The $100,000,000 bonds were 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 DOH. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable

standby letter of credit issued by the Bank. The Housing Revenue Bonds were paid-off on September 30, 2011.

(21) Interfund Balances and Transfers

The following table is a summary of the interfund balances as of June 30, 2013, between governmental funds and proprietary funds:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Proprietary fund:		
Other nonmajor funds (New Secure Housing Program)	GDB Operating Fund	Demand deposits and accrued interest	$ 298,547
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	57,678
AHMSP Act No. 124	GDB Operating Fund	Investment agreements and accrued interest	548,075
AHMSP Act No. 124	GDB Operating Fund	Demand deposits and accrued interest	399,801
AHMSP Act No. 124	GDB Operating Fund	Demand deposits and and accrued interest	53,481
AHMSP Act No. 124	GDB Operating Fund	Investment agreements and accrued interest	15,289,450
Other nonmajor funds (Closing Costs Assistance Program)	GDB Operating Fund	Demand deposits and accrued interest	467,201
My New Home Program	GDB Operating Fund	Demand deposits and accrued interest	620,574
My New Home Program	GDB Operating Fund	Certificates of deposit and accrued interest	1,306,447
AHSMP Act No. 124	GDB Operating Fund	Certificates of deposit and accrued interest	6,549,297
AHSMP Act No. 124	GDB Operating Fund	Demand deposits and accrued interest	60,171
Subtotal			$ 25,650,722

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 25,650,722
Proprietary fund:	Governmental fund:		
GDB Operating Fund	Other nonmajor funds (New Secure Housing Program)	Loans payable and accrued interest	(51,362,914)
GDB Operating Fund	AHMSP Act No. 124	Loans payable and accrued interest	(39,278,886)
GDB Operating Fund	AHMSP Act No. 124	Loans payable and accrued interest	(13,347,727)
GDB Operating Fund	My New Home Program	Loans payable and accrued interest	(92,916,470)
Housing Finance Authority	Other nonmajor funds (New Secure Housing Program)	Reimbursement of expenditures	(2,707,589)
Housing Finance Authority	HUD Programs	Reimbursement of expenditures	(1,023,514)
Housing Finance Authority	My New Home Program	Reimbursement of expenditures	(20,750)
Housing Finance Authority	HOME Programs	Reimbursement of expenditures	(1,365,174)
Total			(202,023,024)
Total internal balances – net			$ (176,372,302)

With the exception of investment agreements of $15.8 million and loans payable of $1.9 million, all of the remaining amounts due from internal balances or due to internal balances are due within one year.

The summary of interfund balances as of June 30, 2013, among proprietary funds, is as follows:

Receivable by	Payable by	Purpose	Amount
Proprietary funds:	Proprietary funds:		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 2,042,219
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	6,419,664
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	21,712,510
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,190,144
Other nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,386,191
Other nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	44,830
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	151,400,988
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	339,100,799
Total balance among proprietary funds eliminated			$ 524,297,345

The following table is a summary of interfund transfers for the year ended June 30, 2013:

Transfer out	Transfer in	Transfer for	Amount
Governmental funds:	Governmental funds:		
AHMSP Act No. 124	My New Home Program	Release of excess funds	$ 5,000,000
AHMSP Act No. 124	Other nonmajor funds (New Secure House Program)	Interest Line of Credit	885,252
Governmental funds:	Proprietary funds:		
AHMSP Act No. 124	Housing Finance Authority	Release of excess funds	15,923
Proprietary funds:	Governmental funds:		
Housing Finance Authority	AHMSP Act No. 124	Trustee fees payments	8,500
Housing Finance Authority	AHMSP Act No. 124	Subsidy payments	1,233,717
Proprietary funds:	Proprietary funds:		
GDB Operating Fund	Other nonmajor funds (JMB Institute)	Contribution	100,000
GDB Operating Fund	Tourism Development Fund	Contribution	28,781,250

(22) Funds Deficit

The following governmental funds reflect a deficit at June 30, 2013: My New Home Program, HOME Program and New Secure Housing Program for the amount of $91.4 million, $6.8 million, and $55.8 million, respectively. The deficit of the My New Home Program 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 Housing Finance Authority's allowable costs. The deficit of the Home Program is due to the deferral of revenue that was not considered available for current expenditures. Except for the Home Program, the Housing Finance Authority expects to cover these deficits through future contributions from the Commonwealth.

The deficit in the Tourism Development fund, a proprietary fund, is mostly due to the accrual of the allowance for loan losses and allowance for guarantees and letter of credits. The Tourism Development Fund expects to cover this deficit through future contributions from the Commonwealth as permitted by the legislation that created the Tourism Development Fund (See note 3(f)).

(23) Subsequent Events

Act No. 34 of June 26, 2013 was enacted to provide subsidies to eligible individuals of families for the purchase of an eligible principal residence. To that effect the Housing Finance Authority created, in July 2013, My Own Home Fund and transferred $6.1 million of its own Funds for the operation of the program. The Housing Finance Authority is pending to receive $9.2 million from OMB which will also be used on the program.

OTHER SUPPLEMENTARY INFORMATION

OTHER NONMAJOR GOVERNMENTAL FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information — Other Nonmajor Governmental Funds
June 30, 2013

	Closing Costs Assistance Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
ASSETS — Due from other funds	$ 467,201	$ 298,547	$ 765,748
LIABILITIES:			
Due to other funds	$ -	$ 54,070,503	$ 54,070,503
Accounts payable and accrued liabilities		2,052,168	2,052,168
Total liabilities	-	56,122,671	56,122,671
FUND BALANCES (DEFICIT):			
Restricted for affordable housing programs	467,201		467,201
Unassigned		(55,824,124)	(55,824,124)
Total fund balances (deficit)	467,201	(55,824,124)	(55,356,923)
TOTAL LIABILITIES AND FUND BALANCES (DEFICIT)	$ 467,201	$ 298,547	$ 765,748

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit) Information — Other Nonmajor Governmental Funds
Year Ended June 30, 2013

	Closing Costs Assistance Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
REVENUES:			
Interest income on deposits placed with banks	$ 406	$ 332	$ 738
Other	119,422	571,967	691,389
Total revenues	119,828	572,299	692,127
EXPENDITURES:			
Current — Housing assistance programs	-	21,828	21,828
Debt service — Interest	-	862,227	862,227
Total expenditures	-	884,055	884,055
DEFICIENCY OF REVENUES OVER EXPENDITURES	119,828	(311,756)	(191,928)
OTHER FINANCING SOURCES — Transfers-in	-	885,252	885,252
NET CHANGE IN FUND BALANCES (DEFICIT)	119,828	573,496	693,324
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	347,373	(56,397,620)	(56,050,247)
FUND BALANCES (DEFICIT) - END OF YEAR	$ 467,201	$ (55,824,124)	$ (55,356,923)

OTHER NONMAJOR ENTERPRISE FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information — Other Nonmajor Enterprise Funds
June 30, 2013

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Assets:			
Current assets:			
Cash and due from banks	$ 2,430,818	$ 44,825	$ 2,385,993
Accrued interest receivable	204	5	199
Other current receivables	8	8	
Total current assets	$ 2,431,030	$ 44,838	$ 2,386,192
Liabilities:			
Current liabilities — Accounts payable and accrued liabilities	$ 34,031	$ 34,031	$ -
Net position — unrestricted	2,396,999	10,807	2,386,192
Total liabilities and net position	$ 2,431,030	$ 44,838	$ 2,386,192

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Combining Statement of Revenues, Expenses, and

Changes in Net Position Information — Other Nonmajor Enterprise Funds

Year Ended June 30, 2013

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Operating revenues:			
Interest income on deposits placed with banks	$ 2,488	$ 70	$ 2,418
Total operating revenues	2,488	70	2,418
Operating expenses:			
Noninterest expenses:			
Salaries and fringe benefits	75,358	75,358	
Legal and professional fees	54,713	54,713	
Other	(2,817)	(2,817)	-
Total operating expenses	127,254	127,254	-
Operating income (loss)	(124,766)	(127,184)	2,418
Transfer-in	100,000	100,000	
Change in net position	(24,766)	(27,184)	2,418
Net position, beginning of year	2,421,765	37,991	2,383,774
Net position, end of year	$ 2,396,999	$ 10,807	$ 2,386,192

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Combining Statement of Cash Flow Information — Other Nonmajor Enterprise Funds

Year ended June 30, 2013

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Cash flows from operating activities:			
Cash received from other operating noninterest revenues	61	61	-
Cash payment for other operating noninterest expenses	$ (126,583)	$ (126,583)	$ -
Net cash used in operating activities	(126,522)	(126,522)	-
Cash flows from noncapital financing activities:			
Transfers-in	100,000	100,000	-
Net cash provided by noncapital financing activities	100,000	100,000	-
Cash flows from investing activities:			
Interest and dividend received on investments	2,490	72	2,418
Net cash provided by investing activities	2,490	72	2,418
Net change in cash and due from banks	(24,032)	(26,450)	2,418
Cash and due from banks at beginning of year	2,454,850	71,275	2,383,575
Cash and due from banks at end of year	$ 2,430,818	$ 44,825	$ 2,385,993
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	$ (124,766)	$ (127,184)	$ 2,418
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Investment income	(2,488)	(70)	(2,418)
Decrease in other assets	52	52	
Increase in other liabilities	680	680	-
Net cash used in operating activities	$ (126,522)	$ (126,522)	$ -

COMMONWEALTH OF
PUERTO RICO
Government Development Bank
for Puerto Rico

GDB

STATISTICAL SECTION

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A COMPONENT UNIT OF THE COMMONWEALTH OF PUERTO RICO)

STATISTICAL SECTION

This section is intended to complement the information presented in the financial statements, the notes disclosures and the required supplementary information to help readers understand the financial evolution of the Bank. Whenever possible, we have provided comparative information for the last ten fiscal years; that is, from fiscal years 2003 to 2012.

The information contains data illustrative of five categories:

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

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

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

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

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

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

FINANCIAL TRENDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Net Position (Deficit) — Government-Wide

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental activities:										
Net investment in capital assets	$ 5	$ 19	$ 42	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	20,009	39,513	30,293	52,933	33,614	115,429	104,100	78,036	95,018	134,857
Unrestricted	(147,235)	(105,153)	(86,368)	(54,512)	(4,738)	(32,331)	(10,405)	(52,328)	(88,696)	(117,548)
Total governmental activities net position (deficit)	(127,221)	(65,621)	(56,033)	(1,579)	28,876	83,098	93,695	25,708	6,322	17,309
Business-type activities:										
Net investment in capital assets	89,609	96,199	71,008	15,750	17,452	27,397	24,525	27,860	25,277	15,204
Restricted	167,702	157,279	311,329	296,977	231,811	229,459	195,826	231,866	271,389	262,778
Unrestricted	2,249,216	2,313,386	2,237,411	2,232,813	2,172,543	2,018,770	1,957,194	1,811,003	1,659,175	2,020,846
Total business-type activities net position	2,506,527	2,566,864	2,619,748	2,545,540	2,421,806	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828
Primary government										
Net investment in capital assets	89,614	96,218	71,050	15,750	17,452	27,397	24,525	27,860	25,277	15,204
Restricted	187,711	196,792	341,622	349,910	265,425	344,888	299,926	309,902	366,407	397,635
Unrestricted	2,101,981	2,208,233	2,151,043	2,178,301	2,167,805	1,986,439	1,946,789	1,758,675	1,570,479	1,903,298
Total primary government net position	$ 2,379,306	$ 2,501,243	$ 2,563,715	$ 2,543,961	$ 2,450,682	$2,358,724	$ 2,271,240	$ 2,096,437	$ 1,962,163	$ 2,316,137

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Changes in Net Position (Deficit) Government-Wide

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Expenses										
Governmental activities:										
General government and others	$ 6,884	$ 8,260	$ 6,155	$ 4,777	$ 4,555	$ 5,165	$ 4,514	$ 1,201	$ 1,964	$ 1,511
Housing assistance programs	230,366	264,926	332,378	250,787	177,085	144,438	165,056	192,784	273,687	133,074
Total governmental activities	237,250	273,186	338,533	255,564	181,640	149,603	169,570	193,985	275,651	134,585
Business-type activities:										
GDB Operating Fund	361,895	402,188	409,653	342,854	318,792	381,694	500,702	361,649	687,780	139,623
Housing Finance Authority	48,032	98,865	93,504	96,153	88,024	92,053	85,317	113,138	105,521	219,276
Tourism Development Fund	196,555	238,885	50,125	28,410	63,284	16,159	11,955	13,971	16,202	13,374
Public Finance Corporation	4	4	4	4,681	3,745	7,165	20,404	56	53	7,779
Capital Fund	34	38	37	68	66	68	73	89	87	121
Development Fund	20,179	2,355	10,947	3,555	2,929	(5,099)	10,095	39	60	95
Other nonmajor	127	109	110	140	137	181	168	98	107	101
Total business-type activities	626,826	742,444	564,380	475,861	476,977	492,221	628,714	489,040	809,810	380,369
Total primary government expenses	864,076	1,015,630	902,913	731,425	658,617	641,824	798,284	683,025	1,085,461	514,954
Programs Revenues										
Governmental activities:										
Charges for services-financing and investment	3,923	4,683	4,690	4,743	6,616	10,228	10,829	13,355	15,508	16,791
Operating grants and contributions	170,501	177,001	279,609	225,268	127,411	133,012	199,284	187,815	265,171	112,721
Capital grants and contributions	-	-	-	-	-	-	-	-	-	21,493
Total governmental activities program	174,424	181,684	284,299	230,011	134,027	143,240	210,113	201,170	280,679	151,005
Business-type activities:										
Charges for services-fees, commissions, and others	32,357	56,961	35,012	36,605	29,750	50,188	30,674	41,781	44,204	55,143
Charges for services-financing and investment	535,359	714,513	602,801	507,978	432,577	576,122	732,301	537,869	406,604	354,395
Operating grants and contributions	-	-	-	49,000	-	-	-	-	-	113,743
Total business-type activities program	567,716	771,474	637,813	593,583	462,327	626,310	762,975	579,650	450,808	523,281
Total primary government programs revenues	742,140	953,158	922,112	823,594	596,354	769,550	973,088	780,820	731,487	674,286
Net Revenues (Expenses)										
Governmental activities	(62,826)	(91,502)	(54,234)	(25,553)	(47,613)	(6,363)	40,543	7,185	5,028	16,420
Business-type activities	(59,110)	29,030	73,433	117,722	(14,650)	134,089	134,261	90,610	(359,002)	142,912
Total primary government net revenue (expense)	(121,936)	(62,472)	19,199	92,169	(62,263)	127,726	174,804	97,795	(353,974)	159,332
General Revenue and Other Changes in Net Position (Deficit)										
Governmental activities:										
Unrestricted income	-	-	-	-	-	-	-	-	-	1,026
Total governmental activities	-	-	-	-	-	-	-	-	-	1,026
Business-type activities:										
Special item	-	-	555	1,110	154,222	(40,243)	-	36,479	-	-
Total business-type activities	-	-	555	1,110	154,222	(40,243)	-	36,479	-	-
Total primary government	-	-	555	1,110	154,222	(40,243)	-	36,479	-	1,026
Change in net position (deficit)										
Governmental activities	(61,600)	(9,588)	(54,454)	(30,455)	(54,222)	(10,598)	40,543	7,185	5,028	17,446
Business-type activities	(60,336)	(52,884)	74,208	123,734	146,181	98,081	134,261	127,089	(359,002)	142,912
Total primary government	$ (121,936)	$ (62,472)	$ 19,754	$ 93,279	$ 91,959	$ 87,483	$ 174,804	$ 134,274	$ (353,974)	$ 160,358

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Fund Balances (Deficit) — Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental Funds										
Reserved for:										
Long-term loans receivable and other assets	$ -	$ -	$ -	$ -	$ 2,582	$ 3,146	$ 3,597	$ 5,624	$ 8,855	$ 5,652
Debt service	-	-	-	-	29,079	27,727	25,504	55,682	53,374	51,754
Unreserved-special revenue funds	-	-	-	3,297	1,952	36,087	56,094	2,972	20,597	77,451
Restricted for affordable housing programs	45,218	83,774	85,005	-	-	-	-	-	-	-
Unassigned	(155,544)	(128,291)	(120,344)	-	-	-	-	-	-	-
Total fund balances (deficit) governmental funds	$ (110,326)	$ (44,517)	$ (35,339)	$ 3,297	$ 33,613	$ 66,960	$ 85,195	$ 64,278	$ 82,826	$ 134,857

Note: During fiscal year 2011, the Bank adopted Governmental Accounting Standards Board Statement No. 54 "*Fund Balance Reporting and Governmental Fund Type Definitions* ". The provisions of this standard were applied prospectively.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Changes in Fund Balances (Deficit) — Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
REVENUES										
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ 1,189	$ 3,089	$ 38,266	$ 11,162	$ 2,253	$ 11,689	$ 65,850	$ 43,818	$ 119,728	$ 114,550
Intergovernmental – federal government	161,982	173,463	234,647	211,156	118,532	115,587	124,358	138,272	139,330	21,493
Interest on investments and deposits placed with banks	4,369	4,769	4,715	4,538	6,279	9,836	10,517	13,114	14,498	18,803
Interest income on loans	-	-	-	162	225	323	420	538	731	926
Net increase (decrease) in fair value of investments	(291)	(86)	(24)	43	112	69	(107)	(296)	279	(2,938)
Net gain on sale of real estate available for sale	-	-	-	94	250	507	-	-	-	-
Other	2,955	2,252	2,119	1,627	2,525	3,115	3,928	4,160	474	1,026
Total revenues	170,204	183,487	279,723	228,782	130,176	141,126	204,966	199,606	275,040	153,860
EXPENDITURES										
Current:										
General government and other	6,868	8,260	6,156	4,776	4,554	5,165	4,515	1,201	1,964	1,511
Housing assistance programs	223,636	261,688	309,415	247,013	148,737	138,591	155,928	179,427	264,838	115,936
Provision (credit) for loan losses	-	-	-	-	(87)	(247)	724	1,159	(4,343)	-
Capital outlays	-	-	42	-	-	-	-	-	-	-
Debt service:										
Principal	-	1,711	-	-	151	5,237	41,695	36,516	36,105	34,497
Interest	6,734	3,396	2,526	2,407	3,559	6,380	8,631	12,051	12,493	17,138
Total expenditures	237,238	275,055	318,139	254,196	156,914	155,126	211,493	230,354	311,057	169,082
Deficiency of revenues over expenditures	(67,034)	(91,568)	(38,416)	(25,414)	(26,738)	(14,000)	(6,527)	(30,748)	(36,017)	(15,222)
OTHER FINANCING SOURCES (USES):										
Issuance of long-term debt	-	3,575	-	-	-	-	-	-	-	-
Payment to refunded bonds escrow agent	-	(3,100)	-	-	-	-	-	-	-	-
Transfers-in	7,127	132,607	40,343	65,564	13,068	77,891	74,975	67,306	86,799	44,871
Transfers-out	(5,901)	(50,692)	(40,563)	(70,466)	(19,677)	(82,126)	(47,531)	(55,106)	(102,813)	(61,154)
Total other financing sources (uses)	1,226	82,390	(220)	(4,902)	(6,609)	(4,235)	27,444	12,200	(16,014)	(16,283)
Net change in fund balance (deficit)	(65,808)	(9,178)	(38,636)	(30,316)	(33,347)	(18,235)	20,917	(18,548)	(52,031)	(31,505)
Fund balance (deficit) — beginning of year	(44,518)	(35,339)	3,297	33,613	66,960	85,195	64,278	82,826	134,857	166,362
Fund balance (deficit) — end of year	$ (110,326)	$ (44,517)	$ (35,339)	$ 3,297	$ 33,613	$ 66,960	$ 85,195	$ 64,278	$ 82,826	$ 134,857
Debt service as a percentage of noncapital expenditures	2.84%	1.86%	0.79%	0.95%	2.36%	7.49%	23.80%	21.08%	15.62%	30.54%

Note: HUD programs were classified as an enterprise fund from 2002 to 2004. However, since its funding comes entirely from federal assistance programs, it was reclassified as a governmental fund in 2005.

REVENUE CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Revenue Bases and Rates — Government-Wide

Last Ten Fiscal Years

(In thousands)

Average Balances	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
ASSETS:										
Federal funds sold and securities purchased under agreements to resell	$ 463,950	$ 283,375	$ 209,925	$ 847,500	$ 219,291	$ 1,074,850	$ 1,356,192	$ 994,071	$ 693,306	$ 874,159
Deposits placed with banks	772,297	863,524	392,684	578,816	442,726	1,852,131	752,292	198,218	108,297	190,354
Investments and investment contracts	4,199,287	5,365,804	5,783,596	5,296,095	4,764,271	2,671,376	2,397,864	2,343,648	2,348,308	3,254,689
Loans receivable, net	9,004,597	8,385,031	7,681,172	6,825,894	6,193,417	4,836,818	6,137,200	6,398,755	5,278,857	3,554,521
Total interest earning assets	14,440,130	14,897,734	14,067,376	13,548,305	11,619,705	10,435,175	10,643,548	9,934,692	8,428,768	7,873,723
LIABILITIES:										
Commercial paper	-	-	-	-	421	241,846	503,401	1,126,304	973,560	828,005
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	5,821,802	5,810,311	5,851,443	6,852,003	5,991,527	4,715,376	4,783,160	4,481,503	3,523,780	2,819,592
Certificates of indebtedness	-	2,150	8,050	11,800	11,800	11,800	26,916	186,886	256,009	247,000
Securities sold under agreements to repurchase	759,393	927,652	1,014,827	958,944	913,030	497,009	462,425	552,864	206,387	172,754
Bonds and notes payable	5,638,145	6,075,697	5,150,426	3,586,843	2,698,005	2,942,667	3,083,242	1,864,787	1,559,419	1,705,337
Total interest bearing liabilities	12,219,339	12,815,810	12,024,746	11,409,590	9,614,783	8,408,698	8,859,144	8,212,344	6,519,155	5,772,688
Excess of average interest earning assets over average interest bearing liabilities	$ 2,220,792	$ 2,081,925	$ 2,042,630	$ 2,138,715	$ 2,004,922	$ 2,026,477	$ 1,784,404	$ 1,722,348	$ 1,909,613	$ 2,101,035

Operating revenues	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Investment income and interest on loans:										
Investment income	$ 14,030	$ 200,989	$ 175,203	$ 159,884	$ 179,119	$ 297,193	$ 321,269	$ 203,577	$ 171,062	$ 155,152
Interest income on loans	525,407	518,207	432,288	352,837	260,073	289,157	421,861	347,648	251,050	216,034
Total investment income and interest income on loans	539,437	719,196	607,491	512,721	439,192	586,350	743,130	551,225	422,112	371,186
Interest expense on deposits and other borrowings:										
Deposits	47,956	41,923	94,023	110,984	165,774	229,712	302,397	228,596	113,276	60,270
Other borrowings	286,470	345,117	344,535	256,114	198,370	208,678	256,974	200,619	144,492	129,795
Total interest expense	334,426	387,040	438,558	367,098	364,144	438,390	559,371	429,215	257,768	190,065
Net interest income	$ 205,011	$ 332,156	$ 168,933	$ 145,623	$ 75,048	$ 147,960	$ 183,759	$ 122,010	$ 164,344	$ 181,121

Yields	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
ASSETS:	%	%	%	%	%	%	%	%	%	%
Federal funds sold and securities purchased under agreements to resell	0.89	0.67	0.65	0.20	1.32	4.34	5.38	4.17	2.32	1.28
Deposits placed with banks	0.50	0.33	6.43	0.28	2.65	4.61	5.66	5.37	3.28	1.01
Investments and investment contracts	1.99	3.65	2.36	1.18	2.52	4.19	4.87	4.81	4.30	3.76
Loans receivable, net	5.83	6.18	5.63	4.95	4.02	5.60	6.27	5.22	4.59	4.74
Total interest earning assets	3.74	4.83	4.32	3.07	3.30	4.93	5.80	5.02	4.30	3.86
LIABILITIES:										
Commercial paper	-	-	-	-	5.23	4.42	4.15	3.56	1.95	1.02
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	0.82	0.72	1.61	1.04	2.08	3.93	5.30	4.13	2.16	1.18
Certificates of indebtedness	-	0.42	0.25	0.23	2.04	4.14	4.75	4.56	4.17	3.95
Securities sold under agreements to repurchase	0.56	0.63	1.54	2.61	3.36	4.81	4.89	3.65	1.61	1.67
Bonds and notes payable	5.01	5.59	6.39	5.71	6.45	4.93	5.39	5.89	6.03	5.69
Total interest bearing liabilities	2.74	3.02	3.65	2.64	3.42	4.35	5.24	4.43	3.12	2.62
Net interest yield	1.00	1.81	0.67	0.42	(0.12)	0.58	0.56	0.59	1.19	1.24
Net interest margin	1.42	2.23	1.20	1.07	(0.01)	0.79	0.66	0.66	1.25	1.31
Return on average assets	(0.81)	(0.40)	0.13	0.66	0.75	1.15	1.56	1.29	(4.03)	1.42
Change in net position to average capital	(3.30)	(2.47)	0.78	3.74	3.90	5.64	8.00	6.62	(16.55)	5.14
Average capital to average assets	16.21	16.19	17.35	17.78	19.17	20.42	19.45	19.56	24.34	27.63
90 day Libor										
Ending	0.32	0.46	0.25	0.53	0.60	2.78	5.35	5.00	3.12	1.11
Average	0.33	0.47	0.31	0.34	1.96	4.14	5.38	4.29	2.33	1.13

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Principal Revenue Borrowers — Government-Wide

Last Eight Fiscal Years

Name/Category	2013 Interest Income on Loans	2013 Percentage of Total Interest Income on Loans %	2012 Interest Income on Loans	2012 Percentage of Total Interest Income on Loans %	2011 Interest Income on Loans	2011 Percentage of Total Interest Income on Loans %	2010 Interest Income on Loans	2010 Percentage of Total Interest Income on Loans %
Puerto Rico Highways and Transportation Authority	$ 120,977,002	23.03	$ 99,354,442	19.17	$ 62,716,603	14.51	$ 34,849,095	9.88
Puerto Rico Department of Treasury	76,017,155	14.47	68,118,201	13.14	62,040,402	14.35	58,518,365	16.59
Special Communities Irrevocable Trust	25,452,811	4.84	25,736,568	4.97	25,978,647	6.01	25,057,343	7.10
Puerto Rico Medical Services Administration	16,036,226	3.05	14,353,830	2.77	-	-	-	-
Puerto Rico Public Building Authority	14,644,382	2.79	14,362,288	2.77	15,862,615	3.67	9,638,402	2.73
Puerto Rico Tourism Development Fund	13,318,493	2.53	14,897,717	2.87	15,042,879	3.48	9,877,633	2.80
Office of Management and Budget	11,403,852	2.17	-	-	-	-	7,890,899	2.24
Puerto Rico Health Insurance Administration	10,995,078	2.09	12,296,518	2.37	-	-	-	-
Puerto Rico Convention Center District Authority	10,305,250	1.96	10,325,340	1.99	10,426,949	2.41	9,086,388	2.58
Puerto Rico Ports Authority	7,999,491	1.52	9,113,574	1.76	-	-	-	-
Puerto Rico Aqueduct and Sewer Authority		-	45,363,189	8.75	51,400,725	11.89	26,626,802	7.55
Puerto Rico Department of Education	-	-	-	-	8,043,368	1.86	-	-
Puerto Rico Health Department	-	-	-	-	7,330,944	1.70	-	-
Municipal Revenue Collection Center	-	-	-	-	7,252,068	1.68	10,161,661	2.88
Puerto Rico Electric Power Authority	-	-	-	-	-	-	7,770,638	2.20
Department of Transportation and Public Works	-	-	-	-	-	-	-	-
Agricultural Services Administration	-	-	-	-	-	-	-	-
Public Housing Administration	-	-	-	-	-	-	-	-
Puerto Rico Land Authority	-	-	-	-	-	-	-	-
Dedicated Sales Tax Fund	-	-	-	-	-	-	-	-
							-	-
	307,149,740	58.46	313,921,665	60.58	266,095,200	61.55	199,477,224	56.54
Other public entities	106,691,771	20.31	102,485,836	19.78	87,702,751	20.29	98,490,374	27.91
Municipalities	90,602,645	17.24	71,013,800	13.70	51,730,519	11.97	33,148,400	9.39
Private sector	20,962,859	3.99	30,785,630	5.94	26,760,068	6.19	21,720,520	6.16
Total interest income on loans	**$ 525,407,015**	**100.00**	**$ 518,206,931**	**100.00**	**$ 432,288,538**	**100.00**	**$ 352,836,518**	**100.00**
Total number of borrowers	8,727		4,045		7,725		5,568	

Source: Accounting Department (Loans subledger)

Note: The Bank did not provide this information for years previous to 2006 because of system difficulties.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Principal Revenue Borrowers — Government-Wide

Last Eight Fiscal Years

Name/Category	2009 Interest Income on Loans	2009 Percentage of Total Interest Income on Loans %	2008 Interest Income on Loans	2008 Percentage of Total Interest Income on Loans %	2007 Interest Income on Loans	2007 Percentage of Total Interest Income on Loans %	2006 Interest Income on Loans	2006 Percentage of Total Interest Income on Loans %
Puerto Rico Highways and Transportation Authority	$ 10,998,266	4.23	$ -	-	$ -	-	4,511,161	1.30
Puerto Rico Department of Treasury	47,834,331	18.39	50,755,535	17.55	136,540,822	32.37	113,848,061	32.75
Special Communities Irrevocable Trust	21,374,743	8.22	21,795,647	7.54	22,613,374	5.36	14,758,666	4.25
Puerto Rico Medical Services Administration	-	-	-	-	-	-	-	-
Puerto Rico Public Building Authority	4,027,153	1.55	-	-	9,247,954	2.19	-	-
Puerto Rico Tourism Development Fund	6,925,262	2.66	11,486,285	3.97	-	-	-	-
Office of Management and Budget	-	-	-	-	-	-	-	-
Puerto Rico Health Insurance Administration	-	-	-	-	-	-	-	-
Puerto Rico Convention Center District Authority	6,232,868	2.40	8,574,739	2.97	8,693,223	2.06	19,125,323	5.50
Puerto Rico Ports Authority	-	-	-	-	12,142,050	2.88	16,730,269	4.81
Puerto Rico Aqueduct and Sewer Authority	13,421,273	5.16	-	-	83,695,289	19.84	25,563,474	7.35
Puerto Rico Department of Education	-	-	5,690,777	1.97	7,249,586	1.72	5,631,643	1.62
Puerto Rico Health Department	9,458,207	3.64	15,147,862	5.24	-	-	-	-
Municipal Revenue Collection Center	-	-	5,997,494	2.07	12,204,966	2.89	16,710,909	4.81
Puerto Rico Electric Power Authority	5,300,910	2.04	-	-	-	-	11,430,890	3.29
Department of Transportation and Public Works	4,496,473	1.73	-	-	-	-	-	-
Agricultural Services Administration	-	-	6,617,194	2.29	-	-	-	-
Public Housing Administration	-	-	3,651,488	1.26	-	-	-	-
Puerto Rico Land Authority	-	-	1,338,793	0.46	-	-	-	-
Dedicated Sales Tax Fund	-	-	-	-	19,553,844	4.64	-	-
	130,069,486	50.01	131,055,814	45.32	311,941,108	73.94	228,310,396	65.67
Other public entities	59,359,750	22.83	93,008,467	32.17	47,090,876	11.16	61,145,088	17.59
Municipalities	49,782,080	19.14	37,323,464	12.91	32,126,507	7.62	33,706,290	9.70
Private sector	20,862,069	8.02	27,769,170	9.60	30,703,219	7.28	24,485,598	7.04
Total interest income on loans	**$ 260,073,385**	**100.00**	**289,156,915**	**100.00**	**$ 421,861,710**	**100.00**	**$ 347,647,372**	**100.00**
Total number of borrowers	3,854		3,381		3,287		3,791	

Source: Accounting Department (Loans subledger)

.Note: The Bank did not provide this information for years previous to 2006 because of system difficulties

(Concluded)

DEBT CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY INFORMATION

Interest Earning Assets and Interest Bearing Liabilities - Government-Wide

Last Ten Fiscal Years

(In thousands except bonds and notes payable per capita)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Interest earning assets										
Governmental activities:										
Deposits placed with banks	$ 3,502	$ 9,179	$ 68,101	$ 6,049	$ 26,362	$ 49,876	$ 42,268	$ 10,756	$ 4,200	$ 5,049
Investments and investment contracts	62,027	63,844	70,165	93,892	99,258	118,011	86,787	173,216	200,296	235,730
Loans receivable-net	-			-	2,063	2,520	2,899	3,749	6,577	4,860
Total governmental activities	65,529	73,023	138,266	99,941	127,683	170,407	131,954	187,721	211,073	245,639
Business-type activities:										
Federal funds sold	$ 150,000	$ 277,900	$ 88,850	$ 331,000	$ 1,364,000	$ 316,620	$ 945,500	$ 1,935,000	$ 1,411,000	$ 757,458
Securities purchased under agreements to resell	300,000	200,000	-	-	-	-	-	-	240,000	246,469
Deposits placed with banks	554,507	977,405	672,362	38,854	1,086,366	1,566,118	1,881,810	552,266	350,503	308,703
Investments and investment contracts	2,953,531	5,319,171	5,278,429	6,124,707	4,274,332	4,287,850	2,048,405	2,269,504	2,115,873	3,040,625
Loans receivable-net	9,635,090	8,374,104	8,395,959	6,966,384	6,683,341	5,460,899	6,238,862	7,276,712	5,659,239	4,199,022
Total business-type activities	13,593,128	15,148,580	14,435,600	13,460,945	13,408,039	11,631,487	11,114,577	12,033,482	9,776,615	8,552,277
Total primary government	$ 13,658,657	$ 15,221,603	$ 14,573,866	$ 13,560,886	$ 13,535,722	$ 11,801,894	$ 11,246,531	$ 12,221,203	$ 9,987,688	$ 8,797,916
Interest bearing liabilities										
Governmental activities:										
Notes payable	$ 3,431	$ 3,427	$ 4,811	$ 4,811	$ 4,811	$ 4,962	$ 10,199	$ 10,244	$ 10,339	$ 10,339
Bonds payable	-	-	-	-	-	-	-	41,650	78,070	114,175
Total governmental activities	3,431	3,427	4,811	4,811	4,811	4,962	10,199	51,894	88,409	124,514
Business-type activities:										
Deposits	5,576,669	6,066,934	5,553,688	6,149,198	7,554,808	7,003,534	5,457,994	5,783,278	4,872,660	3,812,894
Certificates of indebtedness	-	-	4,300	11,800	11,800	11,800	11,800	54,884	261,056	251,799
Securities sold under agreements to repurchase	634,301	884,484	970,819	1,058,835	859,053	687,200	455,000	515,000	439,034	160,000
Commercial paper	-	-	-	-	-	500	575,861	985,131	1,191,202	918,410
Participation agreement payable	24,339	25,206	26,000	26,000	26,000	26,000	26,000	26,000	-	-
Bonds payable	558,297	634,923	942,953	989,449	959,133	1,417,257	1,283,260	1,343,215	1,383,913	1,504,461
Notes payable	4,728,665	5,298,001	5,216,072	3,090,756	2,072,726	688,829	1,678,048	1,719,059	17,540	
Total business-type activities	11,522,271	12,909,548	12,713,832	11,326,038	11,483,520	9,835,120	9,487,963	10,426,567	8,165,405	6,647,564
Total primary government	$ 11,525,702	$ 12,912,975	$ 12,718,643	$ 11,330,849	$ 11,488,331	$ 9,840,082	$ 9,498,162	$ 10,478,461	$ 8,253,814	$ 6,772,078
Net assets										
Governmental activities	$ (127,221)	$ (65,621)	$ (56,033)	$ (1,579)	$ 28,875	$ 83,098	$ 93,695	$ 25,708	$ 6,322	$ 17,309
Business-type activities	2,506,527	2,566,864	2,619,748	2,545,540	2,421,807	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828
Total primary government	$ 2,379,306	$ 2,501,243	$ 2,563,715	$ 2,543,961	$ 2,450,682	$ 2,358,724	$ 2,271,240	$ 2,096,437	$ 1,962,163	$ 2,316,137
Bonds and notes payable per capita	$ 1,445.71	$ 1,612.88	$ 1,659.62	$ 1,094.89	$ 809.56	$ 559.66	$ 783.21	$ 816.72	$ 389.61	$ 425.76
Bonds and notes payable per personal income	$ 277.65	$ 313.06	$ 385.36	$ 258.71	$ 196.33	$ 141.88	$ 216.35	$ 233.57	$ 116.71	$ 136.80
Interest bearing liabilities to interest earning assets	%	%	%	%	%	%	%	%	%	%
Governmental activities	5.24	4.69	3.48	4.81	3.77	2.91	7.73	27.64	41.89	50.69
Business-type activities	84.77	85.22	88.07	84.14	85.65	84.56	85.37	86.65	83.52	77.73
Total primary government	84.38	84.83	87.27	83.56	84.87	83.38	84.45	85.74	82.64	76.97
Interest bearing liabilities to net assets										
Governmental activities	(2.70)	(5.22)	(8.59)	(304.69)	16.66	5.97	10.89	201.86	1,398.43	719.36
Business-type activities	459.69	502.93	485.31	444.94	474.17	432.19	435.72	503.52	417.49	289.17
Total primary government	484.41	516.26	496.10	445.40	468.78	417.18	418.19	499.82	420.65	292.39
Depositors	362	355	355	352	410	419	357	472		

Notes:

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

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY

Interest Income Pledged to Pay Debt Service

Last Ten Fiscal Years

(In thousands)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Governmental-type activities										
Pledge investment income	$ 1,381									
Trustee fees	9									
Net available revenue	$ 1,372									
Debt Service:										
Bonds payable-Principal	$ -									
Bonds payable-Interest expense	711									
Total debt service	$ 711									
Coverage	192.97%									
Business-type activities										
Pledge investment income	$ 10,415	$ 43,298	$ 71,481	$ 87,970	$ 83,309	$ 78,721	$ 84,056	$ 78,103	$ 77,245	$ 86,902
Trustee fees	203									
Net available revenue	$ 10,212	$ 43,298	$ 71,481	$ 87,970	$ 83,309	$ 78,721	$ 84,056	$ 78,103	$ 77,245	$ 86,902
Debt Service:										
Bonds payable - Principal	$ 141,664	$ 218,332	$ 74,605	$ 223,623	$ 171,817	$ 91,611	$ 236,021	$ 315,020	$ 134,037	$ 156,210
Bonds payable - Interest expense	24,688	36,853	56,301	62,176	71,129	71,027	74,082	78,077	83,715	88,357
Total debt service	$ 166,352	$ 255,185	$ 130,906	$ 285,799	$ 242,946	$ 162,638	$ 310,103	$ 393,097	$ 217,752	$ 244,567
Coverage	6.14%	16.97%	54.60%	30.78%	34.29%	48.40%	27.11%	19.87%	35.47%	35.53%

Note: The governmental-type activities data for the periods prior to fiscal year 2013 is not available due to system difficulties.

DEMOGRAPHIC AND ECONOMIC

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEMOGRAPHIC AND ECONOMIC INFORMATION OF PUERTO RICO

For the Last Ten Fiscal Years

	FISCAL YEARS									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Population (thousands of habitants)	3,659	3,681	3,714	3,731	3,751	3,772	3,794	3,813	3,824	3,826
Total Personal Income (million of $)	62,369	62,327	59,411	58,915	58,011	56,124	52,110	50,842	48,820	45,566
Per Capita Personal Income ($/habitant)	17,044	16,934	15,995	15,790	15,467	14,879	13,735	13,333	12,766	11,908
Unemployment Rate (%)	14.0%	15.2%	16.0%	16.0%	13.4%	11.0%	10.4%	11.0%	10.6%	11.4%

Source:

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

Comments:

Figures for fiscal year 2013 were estimated, except for the unemployment rate.

The figures on population come from projections of the 2010 census.

The unemployment rates come from employment data based on population estimates from the 2000 census.

All figures from fiscal years 2004 to 2010 were revised by the Board of Planning and Statistics of Puerto Rico.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
DEMOGRAPHIC AND ECONOMIC INFORMATION OF PUERTO RICO
For the Last Ten Fiscal Years

EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR
(In thousands of persons 16 years and over)

FOR FISCAL YEARS ENDED ON JUNE 30,	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
TOTAL	**1,030**	**1,085**	**1,077**	**1,103**	**1,167**	**1,218**	**1,263**	**1,253**	**1,238**	**1,206**
Growth Rate (1)	-5.1%	0.7%	-2.4%	-5.5%	-4.1%	-3.6%	0.8%	1.3%	2.6%	1.5%
Services	348	359	344	330	353	359	364	354	349	340
Industry / Total	33.8%	33.1%	31.9%	29.9%	30.2%	29.5%	28.8%	28.2%	28.2%	28.2%
Growth Rate	-3.0%	4.4%	4.2%	-6.5%	-1.7%	-1.4%	2.8%	1.4%	2.6%	3.7%
Domestic service	**	6	8	7	7	7	8	7	11	12
Others	**	353	336	323	346	352	356	347	338	328
Government	217	241	240	261	271	279	296	278	274	268
Industry / Total	21%	22.2%	22.3%	23.7%	23.2%	22.9%	23.4%	22.2%	22.1%	22.2%
Growth Rate	-9.9%	0.4%	-8.0%	-3.7%	-2.9%	-5.7%	6.5%	1.5%	2.2%	-0.4%
Trade	229	240	241	240	244	257	260	271	261	253
Industry / Total	22.3%	22.1%	22.4%	21.8%	20.9%	21.1%	20.6%	21.6%	21.1%	21%
Growth Rate	-4.5%	-0.4%	0.4%	-1.6%	-5.1%	-1.2%	-4.1%	3.8%	3.2%	0.4%
Wholesale	**	22	23	25	27	31	28	24	25	24
Retail	**	218	217	215	217	226	232	248	236	228
Manufacturing	95	99	99	102	112	129	135	136	138	136
Industry / Total	9.2%	9.1%	9.2%	9.2%	9.6%	10.6%	10.7%	10.9%	11.2%	11.3%
Growth Rate	-4.3%	0.0%	-2.9%	-8.9%	-13.2%	-4.4%	-0.7%	-1.4%	1.5%	1.5%
Sugar	**	a/	a/	a/	a/	a/	a/	a/	a/	a/
Tobacco products	**	a/	a/	a/	a/	a/	a/	2	a/	a/
Factory needlework	**	9	9	7	9	9	8	9	9	10
Alcoholic beverages and beer	**	a/	a/	a/	a/	a/	a/	a/	a/	a/
Home needlework	**	2	a/	a/	a/	a/	a/	a/	a/	a/
Others	**	88	90	95	103	120	127	125	126	125
Construction	47	51	47	54	68	82	94	87	87	88
Industry / Total	4.6%	4.7%	4.4%	4.9%	5.8%	6.7%	7.4%	6.9%	7.0%	7.3%
Growth Rate	-6.9%	8.5%	-13.0%	-20.6%	-17.1%	-12.8%	8.0%	0.0%	-1.1%	7.3%
Finance, insurance, and real estate	29	36	41	41	43	43	45	47	43	41
Industry / Total	2.8%	3.3%	3.8%	3.7%	3.7%	3.5%	3.6%	3.7%	3.5%	3.4%
Growth Rate	-19.3%	-12.2%	0.0%	-4.7%	0.0%	-4.4%	-4.3%	9.3%	4.9%	-2.4%
Transportation	b	16	20	25	24	23	23	27	27	27
Industry / Total	b	1.5%	1.9%	2.3%	2.1%	1.9%	1.8%	2.2%	2.2%	2.2%
Growth Rate	b	-20.0%	-20.0%	4.2%	4.3%	0.0%	-14.8%	0.0%	0.0%	-3.6%
Agriculture, forestry, and fishing	17	17	17	17	19	15	16	22	26	25
Industry / Total	1.7%	1.6%	1.6%	1.5%	1.6%	1.2%	1.3%	1.8%	2.1%	2.1%
Growth Rate	0.0%	0.0%	0.0%	-10.5%	26.7%	-6.3%	-27.3%	-15.4%	4.0%	4.2%
Sugar cane	**	a/	a/	a/	a/	a/	a/	a/	a/	a/
Coffee	**	3	4	5	6	4	3	8	6	6
Agriculture, forestry, and fishing (continued)										
Bananas	**	2	3	2	2	2	3	3	4	4
Forestry and fishing	**	a/	a/	a/	a/	a/	a/	a/	a/	a/
Other farms	**	12	10	10	11	9	10	11	16	16
Communication	b	12	15	16	15	16	16	16	17	16
Industry / Total	b	1.1%	1.4%	1.5%	1.3%	1.3%	1.3%	1.3%	1.4%	1.3%
Growth Rate	b	-20.0%	-6.3%	6.7%	-6.3%	0.0%	0.0%	-5.9%	6.3%	6.7%
Other public utilities	b	13	13	16	18	15	14	16	15	13
Industry / Total	b	1.2%	1.2%	1.5%	1.5%	1.2%	1.1%	1.3%	1.2%	1.1%
Growth Rate	b	0.0%	-18.8%	-11.1%	20.0%	7.1%	-12.5%	6.7%	15.4%	-7.1%
Transportation, Communication & Other public utilities	47	-	-	-	-	-	-	-	-	-
Industry / Total	4.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Growth Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Mining		a/	a/	a/	a/	a/	a/	a/	a/	a/

a/ Less than 2,000.
Source: Department of Labor and Human Resources, Bureau of Labor Statistics, Household Survey
Comment:
1. Total employment decreased 5.1% from 2012 to 2013. The most significant reductions were noted in the following sectors: Finance, insurance and real estate, government and construction with declines of 19.3%, 9.9% and 6.9%, respectively.

**- Information was not available for fiscal year 2013.

b- Information is included in the line Transportation, Communication & Other Public utilities.

OPERATING

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

Government Employees by Function / Program

Last Ten Fiscal Years

Function / Program	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
GDB Operating Fund	236	249	246	284	299	271	342	350	360	352
Housing Finance Authority	157	139	129	144	165	155	183	186	190	193
	393	388	375	428	464	426	525	536	550	545

Notes:

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

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

During 2011, GDB implemented a voluntary termination plan where five career positions were eliminated.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

Capital Assets - Government-Wide

Last Ten Fiscal Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Capital assets not being depreciated:										
Land	$ 2,845,000	$ 11,725,000	$ 2,845,000	$ 2,845,000	$ 2,845,005	$ 10,970,990	$ 10,970,990	$ 2,845,000	$ 2,845,000	$ 2,955,000
Construction in progress	-	-	-	-	-	-	-	10,701,311	9,753,214	-
Land under development	87,172,697	73,290,540	56,454,861	-	-	-	-	-	-	-
Total capital assets not being depreciated	90,017,697	85,015,540	59,299,861	2,845,000	2,845,005	10,970,990	10,970,990	13,546,311	12,598,214	2,955,000
Capital assets being depreciated:										
Building	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048
Leasehold improvements	4,683,319	4,715,152	4,461,711	4,429,170	4,017,966	3,994,861	2,450,008	2,342,878	459,264	1,283,538
Information systems	4,791,418	2,353,997	2,097,917	3,707,774	3,208,527	3,322,143	3,418,279	4,758,833	4,667,493	3,565,020
Office furniture and equipment	2,802,927	2,896,601	2,746,658	2,687,793	2,722,277	2,851,922	3,042,790	2,872,872	3,058,337	3,381,952
Software	2,499,278	4,263,003	4,425,172	3,522,685	3,473,645	3,798,777	3,773,033	4,673,468	2,276,218	4,921,753
Vehicles	323,984	283,254	283,254	217,119	223,125	207,915	257,885	431,087	506,184	439,096
Total capital assets being depreciated	24,088,974	23,500,055	23,002,760	23,552,589	22,633,588	23,163,666	21,930,043	24,067,186	19,955,544	22,579,407
Less accumulated depreciation and amortization for:										
Building	(2,808,765)	(2,584,064)	(2,359,363)	(2,134,660)	(1,909,959)	(1,685,258)	(1,460,557)	(1,235,856)	(1,011,155)	(786,454)
Leasehold improvements	(3,112,115)	(2,617,842)	(2,176,140)	(1,746,839)	(1,358,320)	(1,005,286)	(766,095)	(309,645)	(165,109)	(875,623)
Information systems	(3,459,089)	(1,744,014)	(1,645,322)	(2,468,416)	(1,690,944)	(1,562,381)	(2,981,543)	(3,808,911)	(3,472,051)	(2,716,637)
Office furniture and equipment	(2,392,118)	(2,023,074)	(1,863,879)	(1,949,436)	(1,625,414)	(1,471,793)	(1,919,866)	(1,831,200)	(1,955,530)	(1,590,435)
Software	(2,124,208)	(3,056,247)	(2,946,573)	(2,163,973)	(1,267,463)	(830,430)	(1,042,847)	(2,298,953)	(367,692)	(4,109,476)
Vehicles	(283,077)	(271,911)	(261,619)	(184,528)	(174,235)	(182,667)	(204,878)	(269,235)	(305,040)	(252,101)
Total accumulated depreciation and amortization	(14,179,372)	(12,297,152)	(11,252,896)	(10,647,852)	(8,026,335)	(6,737,815)	(8,375,786)	(9,753,800)	(7,276,577)	(10,330,726)
Total capital assets being depreciated–net	9,909,602	11,202,903	11,749,864	12,904,737	14,607,253	16,425,851	13,554,257	14,313,386	12,678,967	12,248,681
Total capital assets–net	$ 99,927,299	$ 96,218,443	$ 71,049,725	$ 15,749,737	$ 17,452,258	$ 27,396,841	$ 24,525,247	$ 27,859,697	$ 25,277,181	$ 15,203,681

Note:

- In 2005, GDB began construction of its new headquarters. Governmental Finance Center that was going to house the Bank, its component units, affiliates, and other fiscal or financial governmental entities, except for the Housing Finance Authority.
- In 2007, the Bank reassessed its construction project and was reconsidering the original plan. Also in 2007, the Bank exchanged real estate available for sale for a land lot where the Bank's headquarters were expected to be developed.
- The Housing Finance Authority made some improvements to its offices during 2006.
- Currently the Bank is implementing a new integrated banking system. In 2005, the mainframe system became fully depreciated.
- In 2011, land under development was transferred from real estate available for sale to capital assets. It is property owned by the Bank that is being developed for future government benefit.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

SERVICE LEVEL - LOANS ORIGINATED

Last Ten Fiscal Years

Function / Program	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
GDB Operating Fund	126	180	202	172	154	152	119	98	125	59
Housing Finance Authority	109	94	2,691	1,503	406	679	519	600		
Tourism Development Fund	4	3	2	2	1	1				4
Development Fund	1	-	1	1	-	-	-	-	-	-
	240	277	2,896	1,678	561	832	638	698	125	63

Source : Accounting Department from the loans subledger.

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