

**A CELEBRATION OF EXCELLENCE:**  
a renewed commitment to values

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

## TABLE OF CONTENTS

<b>1</b>	<b>OUR MISSION STATEMENT</b>
<b>2</b>	<b>A MESSAGE FROM THE PRESIDENT</b>
<b>6</b>	<b>A BANNER YEAR IN PUBLIC FINANCING: WORKING FOR OUR PEOPLE</b>
6	BACK ON TRACK
7	RECORD-BREAKING ISSUES AND SAVINGS
10	HELPING MUNICIPALITIES TO SUCCEED
<b>11</b>	<b>PRIVATE FINANCING: NURTURING ECONOMIC DEVELOPMENT</b>
<b>13</b>	<b>SECURE AND AFFORDABLE HOUSING</b>
<b>15</b>	<b>WATER FOR ALL</b>
<b>16</b>	<b>PORT OF THE AMERICAS: GATEWAY TO THE WORLD</b>
<b>18</b>	<b>FUTURE UNDERTAKINGS</b>
<b>20</b>	<b>BOARD OF DIRECTORS</b>
<b>21</b>	<b>SENIOR MANAGEMENT</b>
<b>23</b>	<b>OFFICERS</b>
<b>24</b>	<b>FINANCIAL HIGHLIGHTS</b>
<b>25</b>	<b>INDEPENDENT AUDITORS' REPORT</b>
<b>26</b>	<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>
<b>39</b>	<b>BASIC FINANCIAL STATEMENTS</b>
	GOVERNMENT-WIDE FINANCIAL STATEMENTS:
39	STATEMENT OF NET ASSETS
40	STATEMENT OF ACTIVITIES
	FUND FINANCIAL STATEMENTS:
41	BALANCE SHEET - GOVERNMENTAL FUNDS
42	STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
43	RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
44	BALANCE SHEET - ENTERPRISE FUNDS
46	STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ENTERPRISE FUNDS
48	STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
51	NOTES TO BASIC FINANCIAL STATEMENTS

## OUR MISSION STATEMENT

# A celebration of excellence:

a renewed commitment to values

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

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

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

At the 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.

To accomplish this goal, the Bank's subsidiaries and affiliates work in highly specialized financial areas. Its subsidiaries are: Puerto Rico Housing Finance Authority, Puerto Rico Development Fund, Puerto Rico Capital Fund, Puerto Rico Public Finance Corporation, and Puerto Rico Tourism Development Fund.

Its affiliates are: Puerto Rico Municipal Finance Agency, Puerto Rico Infrastructure Financing Authority, and Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA).

## A MESSAGE FROM THE PRESIDENT

Sixty years ago, a generation of statesmen—giants among their peers—conceived and created the Government Development Bank for Puerto Rico (GDB) to serve as fiscal agent and financial advisor to what would become, a decade later, the Commonwealth of Puerto Rico. GDB's success in fulfilling this role, which makes it unique among governmental institutions in the United States, has been paramount to the social,

economic and financial transformation of the Commonwealth and its people. Today, with a new generation of public servants at the helm, GDB renews itself once again in its quest for the continued well-being of the people of Puerto Rico and, in doing so, reaffirms its most fundamental values of fiscal responsibility, financial transparency, relentless innovation, integrity, and professional excellence.



Juan Agosto-Alicea,  
GDB President (left) and  
Héctor Méndez-Vázquez,  
incoming President

Thanks to our policy of strictly adhering to sound financial practices during the first eighteen months of our tenure under Governor Sila M. Calderón, we can proudly report that GDB has reached the historic mark of \$8.68 billion in total assets as of June 30, 2002. As a result of decisive action taken during fiscal year 2002, GDB's net income (which the Bank has interpreted to mean change in net assets) increased from \$84.9 million in fiscal year 2001 to \$217.7 million in fiscal year 2002. We increased GDB's liquidity by 350 percent by securitizing \$2.4 billion in outstanding GDB loans to government dependencies through the enactment of Act 164 of December 17, 2001. This effort will also save the Commonwealth's General Fund more than \$459 million in debt service over the next thirty years.

The Bank's sound financial situation has also enabled us to promote and succeed in the passing of legislation under which the Bank can make yearly transfers of ten percent of its audited net income or \$10 million, whichever is higher, to the Commonwealth of Puerto Rico's General Fund, subject to approval by its Board of Directors. Act 82, as approved on June 16, 2002, represents a laudable effort by the public corporation to transfer to the General Fund a share of its earnings in recognition of the initial investment made by the people of the Commonwealth of Puerto Rico at the time of its creation.

Fiscal year 2002 also brought great and new challenges, which GDB met head-on with satisfactory results. The Bank's agility in responding to market developments was evidenced after the events of September 11. The aftershocks of this tragedy were felt in Puerto Rico as they were all over the world and, to prevent damage to the Island's local financial system, the GDB moved decisively to facilitate the necessary liquidity to the system.

Like other jurisdictions that felt the brunt of the economic downturn in the United States, the Commonwealth and the Bank faced a credit watch in May 2002 and a subsequent downgrade in Standard & Poor's credit ratings. Notwithstanding, Governor Calderón's economic team, led by GDB, successfully managed to keep the change from affecting the performance of Commonwealth bonds in the tax-exempt markets, as evidenced by the issuance of a record-breaking \$8.74 billion in bonds between July 1, 2001 and June 30, 2002, at historically low interest rates.

During the last fiscal year, GDB also took a truly proactive role as financial advisor to the agencies and public corporations of the Commonwealth with great success. The Bank became a catalyst for operational and administrative change at the Puerto Rico Aqueduct and Sewer Authority (PRASA) by conducting the procurement process to select a new

private manager for the agency and assisting in restructuring the arrangement with the private manager to ensure its financial recovery. As a result of this action, new legislation was enacted amending the composition of the Board of Directors to ensure its independence and continuity. Act 95 of June 30, 2002 also created a new executive management team to closely monitor compliance by the private manager with all contract terms.

With respect to the Government Employees and Judiciary Retirement Systems Administration and the Teacher's Retirement Fund, GDB facilitated the promotion of sound fiscal policies, including the selection of new consultants and money managers, changes in asset allocation, and the development of studies and recommendations to improve the long-term solvency of the Funds.

Much is said about innovation but true innovation at the service of the people of Puerto Rico is precisely what happened last year through several initiatives and transactions structured by GDB. A \$501 million public improvement forward transaction delivered during fiscal year 2002 was declared by Institutional Investor in its *The 2001 Deals of the Year* issue as the "largest forward ever completed on any issue." Another accomplishment was the \$96.8 million

issuance under the Qualified Zone Academy Bonds (QZABs) program, which took advantage of a previously untapped resource and opportunity that will benefit thousands of students in the Island's public schools.

The year 2002 marks not only six decades of a most valuable contribution by GDB, it also marks five decades of constitutional self-government through our Commonwealth relationship with the United States –a relationship that has been at the core of all our endeavors. On occasion of this dual anniversary, we have renewed our commitment to continue fostering the Island's economic development in our role as fiscal agent and financial advisor to the Commonwealth.

With GDB, Puerto Rico is well equipped to succeed. Ever since the inception of the Commonwealth and the birth of modern Puerto Rico, we have been summoned to stand on the shoulders of giants –of the men and women who set in motion the economic, political and social transformation of our Island. Our devoted employees have accepted the call with enthusiasm, commitment and dedication and have risen to the occasion. We are now able to see farther and gain a broader perspective to better face the challenges of our times.



To further honor this commitment, the Bank is spearheading the creation of the José M. Berrocal Institute for Economics and Finance, in memory of the Bank's president from 1991 to 1992 and whose fruitful career and life were cut short two years ago. Mr. Berrocal had a very clear vision of the Bank's obligation to further the continued investment in the Island's most important resource: its human capital. Through the Institute, we intend to carry forward his legacy by training a new generation of leaders in the fields of public finance and economic development.

Precisely to safeguard one of the Bank's most precious assets –its employees— we recently reached a historic five-year agreement with the labor union that represents more than 170 of the Bank's 466 workers. We are particularly proud of these negotiations as they were conducted in a framework of mutual respect and with the best interest of the institution and its employees at hand. We continue to encourage the professional development of all of GDB's employees to accommodate their current and future needs as they continue to move into an ever-changing and specialized world.

Having spent decades working in the private sector, we can attest to the deep commitment to excellence of all employees at GDB. We feel privileged to work with a group of seasoned employees who are profoundly committed to their work and the well-being of our people. These professionals represent the fundamental values of public service that are synonymous with the Bank and that guide us once again. To all of our colleagues at the Bank, we offer our deepest respect and admiration. Thanks to you all, who proudly stand on the shoulders of giants, Puerto Rico is ready to face the challenges of the future.

A handwritten signature in black ink, appearing to read 'Agosto'.

Juan Agosto-Alicea  
President

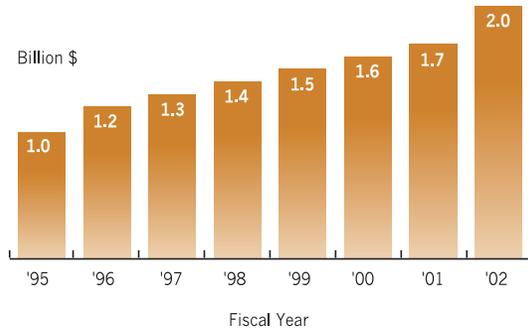
2001-June 2002

A handwritten signature in black ink, appearing to read 'Héctor Méndez-Vázquez'.

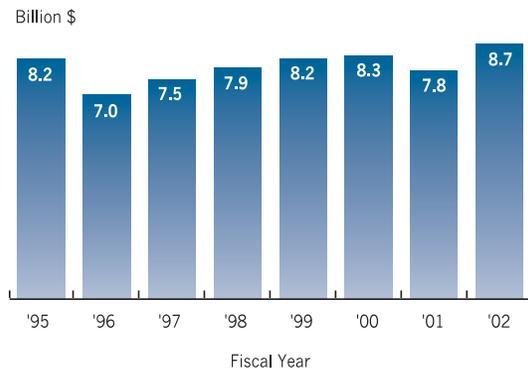
Héctor Méndez-Vázquez  
Incoming President

## A BANNER YEAR IN PUBLIC FINANCING: WORKING FOR OUR PEOPLE

### Total Capital



### Total Assets



### Net Income Change in Net Assets

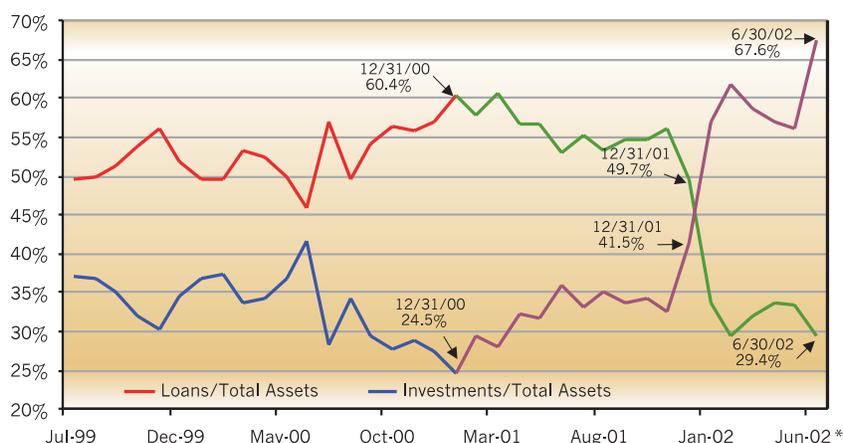


### BACK ON TRACK

The Bank's fiscal strength attests to a sound fiscal management. As a result of solid financial initiatives, the Bank's total assets grew from \$7.82 billion as of June 30, 2001 to \$8.68 billion as of June 30, 2002. The merger of the Housing Bank with the Housing Finance Authority had an important impact on this growth in total assets, as well as on the increase in net income from \$84.9 million to \$217.7 million. Nevertheless, even excluding the effect of the merger, the Bank attained an increase in net income of 57 percent, from \$84.9 in fiscal year 2001 to \$133.4 million in fiscal year 2002, in spite of significant upheavals in the economy. The Bank's investment portfolio now comprises 71 percent of its total assets, compared to 41.5 percent at the end of fiscal year 2001. Over 85 percent of the Bank's portfolio is in high quality instruments, which are rated AA or better.

After the events of September 11 in the United States, GDB moved decisively to facilitate over \$400 million in Fed Funds to local banks. This precautionary measure infused additional liquidity to the local financial system at a time of great uncertainty. To ensure the Bank's fiscal stability and improve its liquidity, we embarked in an ambitious effort to capture additional deposits from government agencies and private companies. These efforts have borne fruit, resulting in an increase of 21 percent in the Bank's total deposits in the last year. As of June 30, 2002 deposits totaled \$3.9 billion, compared to \$3.2 billion in deposits as of June 30, 2001. As a vote of confidence in our stability and banking ability, we continue to secure deposits from private entities such as Microsoft Corporation and Roche Pharmaceuticals, which have deposited \$200 million and \$42 million, respectively.

### Loans & Investment Portfolios GDB Operating Fund



\* Percentages derived from the financial statements, as presented under GASB 34.

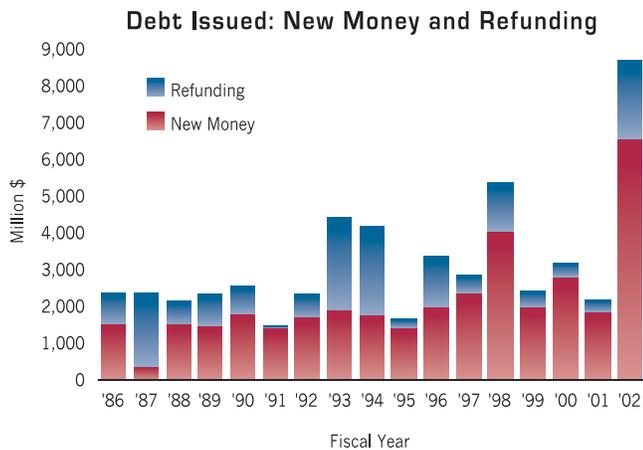
Other efforts to enhance the Bank's liquidity include the restructuring and securitization of \$2.4 billion in financing to various public agencies and corporations, which allowed us to further improve our financial position.

### RECORD-BREAKING ISSUES AND SAVINGS

As fiscal agent of the Commonwealth of Puerto Rico, the Bank, in conjunction with the central government, is responsible for developing the Island's long-term financial planning. The initiatives and efforts undertaken by GDB translate into progress for our people, whose welfare is our ultimate goal. Notwithstanding the trying economic challenges faced during the last year, GDB rose to the occasion and took advantage of historically low interest rates to access the necessary funds to pursue the Commonwealth's long-term public improvements goals.

Using innovative mechanisms and aggressive efforts to safeguard the financial solvency of the Commonwealth, GDB structured and sold a historic \$8.74 billion in bonds for the Commonwealth of Puerto Rico and its instrumentalities during fiscal year 2002. According to Thomson Financial Securities Data's year-end review for calendar year 2001, the Commonwealth of Puerto Rico and the Puerto Rico Public Finance Corporation, both of which issue securities through GDB, ranked seventh and eighth, respectively, among all municipal issuers in the United States. The total dollar volume of the bonds sold by these two Puerto Rico issuers was surpassed only by the total dollar volume issued by the Commonwealth of Massachusetts, the City of Chicago, the State of California, the State of Connecticut, New York City and the Los Angeles Department of Water & Power.

GDB's efforts, marked by a tight calendar of issues in the tax-exempt and local markets, resulted in \$6.6 billion in new financing at interest rates not seen, in some cases, in decades. It also made possible the refunding of \$2.1 billion in Commonwealth and public corporation debt at very favorable interest rates, in all cases reaching or surpassing our target savings of five percent. Through these refinancing efforts, the central government and its corporations will enjoy savings in excess of \$512 million in future interest payments.



The following are highlights of several bond issues successfully brought to market during the past fiscal year:

- The \$800 million Tax and Revenue Anticipation Notes (TRANS) issued in early October 2001 to balance seasonal discrepancies between general fund obligations and the collection of taxes and revenues earmarked to cover those obligations were sold at a 2.08 percent yield –then the lowest interest rate ever achieved for this kind of transaction in GDB’s history. The Bank’s agility in responding to market developments allowed it to successfully bring to market this TRANS issue early in the fiscal year and in spite of the turmoil and uncertainty that followed the events of September 11.
- The \$96.8 million issue under the Qualified Zone Academy Bonds (QZABs) program in December 2001 –the first transaction of its category in Puerto Rico—represented a previously untapped opportunity diligently pursued by GDB staff. This innovative program will be used by the Puerto Rico Department of Education for the improvement of facilities, curriculum development and technological training and equipment in 1,500 public schools.

- The \$1.9 billion issue by the Public Finance Corporation (PFC), a GDB subsidiary, in December 2001, restructured and securitized a large portion of the \$2.4 billion in financing to various government agencies and corporations, injecting liquidity into GDB and producing savings of over \$459 million in debt service payment over the next thirty years. Of the total issue amount, \$812 million was sold in the Puerto Rican market, constituting the largest amount ever sold in the local market and, thus, attesting to its great potential. This issue was made possible by the enactment of Act 164 of December 17, 2001.
- A \$789 million issue of the Public Buildings Authority (PBA) in January 2002 secured \$8.5 million in savings for that public corporation and marked the successful return of PBA to the financial markets after a four-year absence. Thanks to PBA’s efforts to set its finances in order and to GDB’s role as its financial advisor, the public corporation has earned favorable ratings from the rating agencies.
- A \$720 million issue for the Puerto Rico Electric Power Authority (PREPA) in January 2002 produced \$9.6 million in savings for the public corporation and achieved one of the lowest True Interest Costs (TIC) in PREPA’s history.
- In June 2002, PFC went to the local market to issue \$592 million in bonds under Act 164 of December 17, 2001 to refinance part of Health Services and Facilities Administration’s debt with GDB and reduce debt service costs. TIC for the bonds was under 6.37 percent, an interest rate much favorable than the previously paid on this debt. With this issue, PFC completed the securitization of \$2.4 billion in GDB financings to government agencies and corporations.

Other major issues successfully structured during fiscal year 2002 include the \$1.3 billion in Public Improvement Bonds issued in October 2001, which produced savings of \$12.7 million; a \$390 million issued by PFC in August 2001 to repay the line of credit authorized by GDB for the construction of the Super Aqueduct project; and \$1.1 billion for the Puerto Rico Highways Transportation Authority (PRHTA) in February 2002, which produced \$21.6 million in savings.

### Debt Issued during Fiscal Year 2002

Closing Date	Issuer	Amount
Aug-2001	PR Housing Bank & Finance Agency	\$ 400,000,000
Aug-2001	PFC Series 2001- A (Super Aqueduct)	356,680,000
Aug-2001	PFC Series 2001- B (Super Aqueduct)	33,320,000
Aug-2001	Puerto Rico Housing Finance Corporation (PRHFC)	127,075,000
Oct-2001	TRANS	800,000,000
Oct-2001	Commonwealth of Puerto Rico - Series 2002 A	455,000,000
Oct-2001	Commonwealth of Puerto Rico - Series 2002 B	20,000,000
Oct-2001	Commonwealth of Puerto Rico - Refunding Series 2002 A	837,960,000
Dec-2001	PFC - Qualified Zone Academy Bonds (QZAB's)	96,835,000
Dec-2001	PFC Series 2001-C (Restructuring Loans)	771,274,289
Dec-2001	PFC Series 2001-D (Restructuring Loans)	40,750,000
Jan-2002	PFC Series 2001-E (Restructuring Loans)	1,095,845,000
Jan-2002	Puerto Rico Electric Power Authority - Series II	515,305,000
Jan-2002	Puerto Rico Electric Power Authority - Refunding - Series JJ	205,065,000
Jan-2002	PBA Government Facilities Revenue Ref. Series C	185,290,000
Jan-2002	PBA Government Facilities Revenue Series D	553,733,795
Jan-2002	PBA Government Facilities Revenue Series E	49,999,097
Feb-2002	PRHTA - Revenue Bonds Series D	700,855,000
Feb-2002	PRHTA - Revenue Refunding Bonds Series E	284,405,000
Apr-2002	PRHTA - Revenue Refunding Bonds Series F	118,615,000
Apr-2002	Commonwealth of Puerto Rico - Refunding Series 2002	501,565,000
Jun-2002	PFC Series 2002-A (Restructuring Loans)	580,071,037
Jun-2002	PFC Series 2002-B (Restructuring Loans)	12,500,000
<b>Total Debt Issued 2002</b>		<b>\$ 8,742,143,219</b>
<b>Total New Money 2002</b>		<b>\$ 6,609,243,219</b>
<b>Total Refunding 2002</b>		<b>\$ 2,132,900,000</b>

## HELPING MUNICIPALITIES TO SUCCEED

As financial advisor of the Commonwealth of Puerto Rico, GDB assumed an active role in advising municipalities on the best financing options available to them, based on their loan margins and payment capability. This proactive initiative from GDB is well-timed given the great financial difficulties faced by cities and local governments in the United States.

GDB approved 98 loans to the Island's 78 municipalities totaling \$261.4 million in fiscal year 2002, compared to 77 loans approved the year before. Fulfilling its goal to streamline the disbursement of municipal loans, GDB has reduced the amount of documents, and consequently, the time required for the disbursement of these loans, and has allowed municipalities to apply for them by e-mail or fax. In addition, GDB updates all the

information related to the municipalities' loan margin and financial capabilities on its website on a monthly basis, thus enabling the municipalities to monitor their financial condition electronically. This effort has facilitated the municipal decision process and allowed municipal governments to accomplish their work plans.

Among the loans granted for municipal projects are \$93 million to the municipality of San Juan for a variety of public works and the acquisition of equipment, including a \$5.5 million letter of credit for the celebration of the Miss Universe Pageant; \$40 million to Ponce for improvements to the Port of Ponce, \$38.7 million to Caguas and \$21 million to Bayamón for several public works; and \$5 million to the municipality of Arecibo to complete construction of the Municipal Coliseum.

The recently inaugurated Community Police Headquarters building in Caguas was financed with a \$15.96 million loan from GDB's Municipal Financing Department. The facility provides services to 150,000 citizens in 200 communities and functions as operating headquarters for 247 municipal police officers.



## PRIVATE FINANCING: NURTURING ECONOMIC DEVELOPMENT

Creating jobs to spur economic growth on the Island is a challenging task in a rapidly changing global market. The Bank's role as a catalyst of private investment continues to be of utmost importance in a sluggish economy. To attain this objective, the Bank, acting through its affiliate, the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority (AFICA, by its Spanish acronym) has continued its historic role as propeller of the Island's economic progress and job creation, through the issuance of bonds that are exempt from local income taxes. Last year, AFICA structured a total of \$118.9 million in new financing, of which 97% was granted to the private sector, creating approximately 859 permanent and 586 temporary jobs.

Among the projects financed are \$5.96 million for construction of the Embassy Suites Dorado del Mar Hotel & Golf; \$25 million for the Santander Loan Program Series D for loans to small- and medium-sized businesses; \$4.09 million for improvements at the Humacao Judicial Center; three issues of \$823,150, \$1.6 million, and \$1.8 million, respectively, for Master Aggregates; \$20.3 for capital improvements and refinancing at Ana G. Méndez University; and \$59 million for the construction of Torre Chardón S.E., a state of the art office building in Hato Rey.

The tourism sector continues to be a segment with great economic potential. In order to promote a broader participation from the private sector, GDB has set forth new guidelines



AFICA issued \$59.1 million in bonds to finance the construction of Torre Chardón, a fifteen-story Class A office building with 252,488 rentable square feet, located in the heart of Hato Rey and managed by Empresas Fonalledas, Inc.



Located at the entrance of Caguas, the 5th largest city in Puerto Rico, is the "Monument to the Indian Woman." GDB's Municipal Financing Department provided \$38.7 million in financing for the city's municipal improvement program.

to finance tourism projects under the Tourism Development Fund (TDF), one of its subsidiaries, which guarantees financing for tourism projects developed by the private sector. These guidelines established two alternate financing formulas; one requiring 30 percent capital and 70 percent debt (20 percent to be financed by TDF and 50 percent by private financial institutions) and the other requiring 40 percent capital and 60 percent debt (to be fully financed by a private financial institution with a TDF deficiency guarantee). This allows TDF to step in and cover the debt only after the private lending institutions have explored all possible alternatives. These guidelines were designed to secure participation of local private banking institutions in the financing of tourism projects. In tandem with this effort, on October 4, 2001 the Puerto Rico Legislative Assembly approved Act No. 142, as amended, to grant tax exemptions for fees and charges in connection with all guarantees and letters of credit provided and for the interest generated by direct loans granted by private institutions to finance tourism projects.

In November 2001, TDF was capitalized with an additional \$50 million to continue financing the needs of the growing tourism sector in the Island. With this additional investment from GDB, the Fund increased its capital to \$100 million, and expanded its capacity to guarantee additional projects to approximately \$1.1 billion. As of June 30, 2002, TDF had committed \$53.1 million of its capital, which represents \$605.8 million in guaranteed projects.



## SECURE AND AFFORDABLE HOUSING

To live in a secure and dignified environment is a basic right of every human being. The construction of 50,000 housing units of social interest was set as one of the primary goals of this Administration. To attain this objective, all efforts and initiatives to finance the development of social interest housing projects on the Island were consolidated into one governmental organism. Public Law 103 was signed on August 11, 2001 paving the way 180 days later for the merger of Puerto Rico Housing Finance Corporation and Puerto Rico Housing Bank and Finance Agency. The new agency was named Puerto Rico Housing Finance Authority and remained a subsidiary of GDB.

This merger produced administrative efficiencies and created a One-Stop Center for developers and mortgage bankers. This new entity provides easy access to the secondary capital markets to finance

affordable development projects. Prior to this merger, a transaction between the Puerto Rico Housing Bank and the private sector for \$400 million was structured for the development of more than 5,700 housing units all over the Island. Also, GDB worked closely with the Puerto Rico Housing Finance Corporation to structure a \$127.1 million issue of Home Mortgage Revenue Bonds.

Several programs are key elements in this effort to provide affordable housing. Among these are the Low-Income Housing Assistance Program established pursuant to Act 124 of December 10, 1993, the Key to your Home Program, the Tax Credit Program, and the New Secure Housing Program, among others. Under Act 124, the Authority has sponsored the construction of more than 2,200 housing units in 13 municipalities. Some of these projects are Valles de Arroyo, Palm



During the last five years, GDB has granted several loans totaling \$27.37 million to the municipality of Arecibo for the construction of the Municipal Coliseum of Arecibo, built at a total cost of \$30.87 million. The Department of Sports and Recreation and the Commonwealth of Puerto Rico's General Fund provided additional funding to this project.



Under the Low-Income Housing Assistance Program managed by the Puerto Rico Housing Finance Authority, the 290 housing unit project Villas de San Cristóbal in the municipality of Las Piedras, was built at a total cost of \$13 million. The housing units developed under this program target low and moderate income first-time home buyers.

Court in Cataño, Virginia Valley Court in Juncos and Villas del Oeste in Mayagüez. Total investment for these developments, which have created more than 1,200 direct jobs, exceeds \$101 million.

Under the Key to your Home Program, \$29.7 million were approved during fiscal year 2002 for down-payments ranging from \$3,000 to \$15,000. By the end of the fiscal year, 2,172 down-payment certificates had been awarded.

Also, the Authority is part of a group of agencies involved in the urban renewal effort for Santurce, a key district in the Island's capital city. One of the main thrusts of the project is to repopulate the urban center with the creation of 4,500 new housing units to be built in conjunction with the private sector. The project, to be completed in four years, will require an investment of \$900 million in public and private funds. The Authority will continue to work closely with the Department of Housing, the private sector, and the central government for the redevelopment of this area.

Under the New Housing Assistance Program, the Authority coordinates the construction of housing units for families living in flood and landslide-prone areas. Federal and state funds are used in this endeavor. As part of this program, 218 units were built and delivered in Ponce during fiscal year 2002.

## WATER FOR ALL

A reliable supply of potable water is a basic necessity and a fundamental requirement for any developed country. As a matter of social justice, Governor Calderón has pledged to solve the multiple administrative and financial problems that have marred the Puerto Rico Aqueduct and Sewer Authority (PRASA) over the years. PRASA is one of the largest utility companies in the United States, with approximately 200 water and wastewater facilities and over 500 million gallons of water produced each day.

During fiscal year 2002, GDB received a mandate to evaluate the private management contract that had been in force during the previous seven years with *Compañía de Aguas de Puerto Rico* (CAPR), a subsidiary of Vivendi, which provided for CAPR to perform certain operations, maintenance and management duties for PRASA. In light of PRASA's continued financial and operational difficulties, then GDB president Juan Agosto-Alicea led a top-notch Evaluation Committee through the selection of a new operator. The Committee led complex negotiations that lasted a record nine months to select a company that would bring current operations to world-class standards, improve the quality of water and sewer services, reduce water loss, comply with stringent environmental standards, and eliminate PRASA's accumulated deficit and subsidy appropriations from the General Fund within a certain period of time, as well as guarantee the implementation of the *Agua para Todos* program – a government initiative that aims to provide all Island residents with a reliable water supply.

All of the major international water and wastewater companies participated in the procurement process which ended with the selection of Ondeo Services, the French-based water utilities management company and a subsidiary of the Suez International conglomerate, which will operate on the Island as *Ondeo de Puerto Rico*. With annual payments to Ondeo that can amount to approximately \$4 billion over its 10 year term, this transaction is the largest Operations and Maintenance (O&M) private contract for water and wastewater services ever awarded. GDB estimates that this new contract will save the Government \$823 million over the first five years. In addition, the proposal by *Ondeo de Puerto Rico* includes the elimination of the staggering \$200 million PRASA deficit over the first five years of the contract.

*Ondeo de Puerto Rico* has also assumed full responsibility for maintenance, repairs and replacements for all above ground assets, including treatment plants and other installations. The contract, contrary to the prior agreement with Vivendi, allows the Government to set substantial penalties for non-compliance with provisions of the contract, as well as incentives for meeting certain goals. Other aspects that set it apart from the previous contract are the establishment of parameters for compliance with all local and federal environmental regulations, a mandate to increase customer satisfaction, and standards that allow it to operate more like a concession than an O&M, among others.



The Port of Ponce's navigational channel will be dredged to a minimum depth of 55 feet as part of the Port of the Americas project, which will be located in an area that spans the Southern municipalities of Ponce, Peñuelas and Guayanilla. It will be a modern facility capable of accommodating four Post-Panamax ships.

Following completion of a new management contract, Act No. 95 of June 30, 2002 established a new executive structure to oversee PRASA's administration. This new structure allows for a broader participation from private individuals representing the Puerto Rican citizenry and a more equitable procedure for decision-making. It also introduces formal mechanisms to take into consideration recommendations from its customers.

As a result, an Executive Committee was created in PRASA to closely monitor Ondeo's performance. This Committee led by Agosto-Alicea, as President and Chairman of the Board of Directors, assumed control in July 2002. After a year and a half of a most productive contribution at the helm of GDB, Agosto-Alicea undertook the difficult challenge of contract oversight, as well as duties in the areas of finance and administration, planning and environmental compliance, and legal matters, as the head of PRASA's new Executive Committee.

## **PORT OF THE AMERICAS: GATEWAY TO THE WORLD**

Often referred to as the Gateway to the Americas due to its strategic location in the Caribbean, Puerto Rico has embarked on a visionary task to strengthen its position in the changing global economy with the development of a transshipment port known as the Port of the Americas. Its experience operating the fourth largest container port in the Americas in San Juan has paved the way for this state-of-the-art facility that will be located in an area that spans the Southern municipalities of Ponce, Peñuelas and Guayanilla. The Port will be developed in four phases, the first three in Ponce and the last one in Guayanilla, subject to market demand. It will be a modern facility capable of accommodating four Post-Panamax ships -a new generation of ultra-large ocean carriers for transoceanic container traffic, which are rapidly becoming the norm in ocean shipping.



Master Aggregates Toa Baja Corporation, a company established in Puerto Rico in 1977 as a subsidiary of Empresas Master, received \$6.43 million in AFICA funding during fiscal years 2001 and 2002. Master's Dorado Plant produces one million cubic meters of manufactured sand, washed stone, and block mix for the local market.

The Port, facilitated by the Commonwealth of Puerto Rico in conjunction with private investors, is speedily undergoing the local and federal permitting process and undertaking further studies. In the meantime, the Authority of the Port of the Americas was created by Act No. 171 of August 11, 2002 to oversee the development of this project. Construction is set to begin in 2004, while the qualification process to select an operator by the Authority has begun. Selection of a world-class port operator based on a competitive selection process should take place by the summer of 2003. The Port will generate between 6,000 to 10,000 direct jobs and between 16,000 to

20,000 indirect jobs, spurring economic activity in the Southern municipalities and the rest of the Island. The Port will place the Island in a better position to successfully compete in global trade.

In August 2001, GDB approved a \$2 million line of credit for the design of improvement works to the Port of Ponce. Due to its importance to the future economic development of the Island, GDB will continue to support this project, providing the necessary lines of credit and structuring all necessary financing for its development and completion.

## FUTURE UNDERTAKINGS

The changing nature of the financial world has added additional requirements to the Bank's endeavors. Internally, it has embarked on an organizational assessment process, including a comprehensive evaluation of the Bank's critical procedures such as purchases, municipal financing, contract management, disbursements, and accounts payable, among others. Consultants have analyzed the tools used in these areas to make them more efficient. In addition, the Bank is promoting a system to gauge all proceedings for the proactive monitoring of the critical processes of the Bank.

In an act of social justice towards historically marginalized communities where people live under the poverty level or in unacceptable conditions, GDB has been authorized to transfer \$500 million to the Special Communities Perpetual Trust to carry out infrastructure projects, build housing units, aqueducts and sewers, and recreational facilities, among others, and to promote efforts and initiatives to foster economic self-sufficiency among residents of the Island's 686 so called Special Communities. This innovative measure, announced by Governor Calderón to complement the Puerto Rico Special Communities Integral Development Act of March 1, 2001, seeks to reduce the great divide between these socially and economically deprived areas and the rest of the Island. Allocations for



Courtesy of the Puerto Rico Department of Transportation and Public Works

The foundations for the development of an all-encompassing collective transportation system integrated by minibuses, AMA vehicles and the Urban Train were laid during 2002. This integrated system, called Alternative Integrated Transport (ATI, by its Spanish acronym) is scheduled to begin operations by September 2003.

the seed fund for the Trust will come from GDB and the Commonwealth's Treasury Department, as well as from federal funds and private bank contributions that qualify under the Community Reinvestment Act of 1977.

A total of \$1 billion will be invested in projects and additional public works in these special communities, including \$560 million for the rehabilitation and construction of 20,000 housing units and \$130 million in new facilities and public works in 200 of these communities, as well as \$310 million for the remaining 486 communities. This investment will enable the financing of economic development activities and other local initiatives to generate jobs within these deprived areas.

The Calderón Administration has been a firm supporter of the cooperative movement. To further strengthen the movement and help it develop its full potential, the Bank has been working on the creation of an Investment and Development Cooperative Fund (FIDCO, by its Spanish acronym). The Fund aims to promote the socioeconomic development of the Island through the collaboration of the cooperative movement and the public sector in the creation of cooperative ventures that will result in job creation. GDB will play an active role as financial advisor to the new entity, enthused with the opportunity to once again become a catalyst of change in an innovative initiative that will transform the social landscape of Puerto Rico.



The Puerto Rico Agricultural Development Fund, established in January 2002 and capitalized with a \$60 million line of credit from GDB, grants financing to farming projects, such as *Productores Cítricos de la Montaña, Inc.*, a private corporation that processes 120 tons of fruit per day in the mountainous municipality of Lares. Under a cooperative agreement with the Administration for the Socio Economic Development of the Family, the processing plant employs single mothers from needy families.

The Administration provides salary subsidies during the first year of employment to foster their economic independence.



## BOARD OF DIRECTORS

Sitting:

**Juan Agosto-Alicea**  
Chairman

**Ramón Cantero-Frau**  
Vice Chariman

Second row:

**Héctor Méndez-Vázquez**  
Incoming GDB President

**Samuel H. Jové-Fontán**  
President  
BMJ Foods PR, Inc.

**Carmen Conde-Torres, Esq.**  
C. Conde & Associates

**Melba Acosta-Febo**  
Executive Director  
Office of Management  
& Budget

**Juan Antonio Flores-Galarza**  
Secretary of the Treasury

**Fermín Contreras-Bordallo**  
Private Investor

## SENIOR MANAGEMENT

**Pedro A. Cintrón-Opio, CPA**  
Executive Vice President  
Administration, Operations  
& Comptrollership

**Miriam Figueroa-Rodríguez, Esq.**  
Executive Vice President  
General Counsel and  
General Legal Advisor

**José V. Pagán-Beauchamp**  
Executive Vice President  
Financing Director

**Héctor Méndez-Vázquez**  
Executive Vice President  
& Treasurer  
(not shown)



**Héctor Jiménez-Juarbe, Esq.**  
General Manager  
Port of The Americas

**Ismael Pérez-Rosado**  
Assistant to the President

**Francisco J. Medina-Cardona, CPA**  
General Auditor

**María E. Quintero-Herencia**  
Director of Communications  
and Publications

**INCOMING  
SENIOR MANAGEMENT**

**María Medina-Rullán, CPA**  
Executive Vice President  
Administration, Operations  
& Comptrollership

**Miriam Figueroa-Rodríguez, Esq.**  
Executive Vice President  
General Counsel and  
General Legal Advisor

**Carlos M. Piñeiro**  
Executive Vice President  
Financing Director

**Hugo Díaz-Molini**  
Executive Vice President  
& Treasurer



**María Socorro Rosario-Claudio**  
Director of Communications  
& Publications

**José G. García-López**  
Assistant to the President

**Víctor A. Monserrate, CPA**  
General Auditor

**José R. Cestero**  
Executive Director  
Puerto Rico Housing Finance Authority

**Griselle M. Robles-Ortiz**  
Director of Human Resources  
and Labor Relations



## GDB'S OFFICERS



### OFFICE OF THE PRESIDENT

**Juan Agosto-Alicea**  
President

**Ismael Pérez-Rosado**  
Assistant to the President

**Héctor Jiménez-Juarbe**  
General Manager  
Port of The Americas

**José A. Bolívar-Villamil**  
Financing Advisor

### FINANCING AREA

**José V. Pagán-Beauchamp**  
Executive Vice President  
Financing Director

**Javier A. Ramos-Luñía**  
First Vice President  
Financing Principal

**Minia González-Álvarez**  
Vice President  
Compliance Director

**Gabriel F. Rivera-Serrano**  
Vice President  
Public Financing Director

**José L. Carrasquillo-Santiago**  
Vice President  
Financing Assistant Director

**Jesús M. García-Rivera, CPA**  
Financing Assistant Director

**Pedro A. Pérez-Rodríguez**  
Vice President  
Acting Director Municipal Financing

### INVESTMENT & TREASURY AREA

**Héctor Méndez-Vázquez**  
Executive Vice President  
Director of Investment and Treasury

**Julio C. Caraballo-Pérez**  
Vice President  
Assistant Treasurer

**Iraida L. Figueroa-Mercado**  
Vice President  
Asset Management Director

**Elizabeth de la Cruz-Cruz**  
Assistant Vice President  
Credit & Compliance Director

**Emilio Torres-Antuñano**  
Vice President  
Director Financial Strategy

### GENERAL LEGAL COUNSEL & LEGAL DIVISION

**Miriam Figueroa-Rodríguez, Esq.**  
Executive Vice President  
General Counsel and  
Director of the Legal Division

**María de los Angeles Trigo, Esq.**  
Acting Assistant Director  
of Legal Division

### ADMINISTRATION, OPERATIONS AND COMPTROLLERSHIP AREA

**Pedro A. Cintrón-Opio, CPA**  
Executive Vice President  
Director of Administration,  
Operations & Comptrollership

**María Medina-Rullán, CPA**  
Acting Comptroller

**Velmarie Berlingeri-Marín**  
Vice President  
Assistant Director Administration  
and Operations

**Amaury Díaz-Martínez, CPA**  
Vice President  
Contract Administrator

**Inés Martín-Carlo, CPA**  
Assistant Vice President  
Accounting & Finance Director

### OFFICE OF THE GENERAL AUDITOR

**Francisco J. Medina-Cardona, CPA**  
General Auditor

**Dominick Torres-Sánchez, CPA**  
Assistant Director for Auditing

### OFFICE OF COMMUNICATIONS AND PUBLICATIONS

**María E. Quintero-Herencia**  
Director of Communications  
and Publications

### OFFICE OF ECONOMIC STUDIES AND ANALYSIS

**Rafael A. Martínez-González**  
Vice President  
Director Economic Studies  
and Analysis

**Carlos M. Guerra-Sierra**  
Assistant Director  
Economic Studies and Analysis

### NEW YORK OFFICE

**M. Salomé Galib**  
Vice President  
Director New York Office

### INFORMATION SYSTEMS DEPARTMENT

**Ricardo Alegría-Rodríguez**  
Technological Development Advisor

**José A. Guzmán-Correa**  
Assistant Vice President  
Director Information Systems

**José Orozco-Isona**  
Assistant Vice President  
Director Technological Projects

### OPERATIONS DEPARTMENT

**Richard A. Méndez-Santiago**  
Director of Banking Operations

### ADMINISTRATIVE SERVICES AND SECURITY DIVISION

**Vilma Pérez-Lugo**  
Assistant Vice President  
Administration and Safety Director

**Rafael Monge-Cortés**  
Administrative Services Director

### SYSTEMS AND PROCEDURES DIVISION

**Yussef Cedeño-Rodríguez, CPA**  
Assistant Vice President  
Systems and Procedures Director

### HUMAN RESOURCES AND LABOR RELATIONS DEPARTMENT

**Griselle M. Robles-Ortiz, Esq.**  
Director of Human Resources  
and Labor Relations

**José L. Amiama-Rodríguez**  
Assistant Vice President  
Assistant Director of  
Human Resources

**José Chaves-Moure**  
Assistant Vice President  
Director of Labor Relations

**Marine Linx Comas-Torres**  
Assistant Director of  
Human Resources

### SUBSIDIARIES

**PUERTO RICO HOUSING  
FINANCE CORPORATION**  
**José R. Cestero**  
Executive Director

**Enid Rivera-Sánchez, Esq.**  
Vice President  
Assistant Director

**Carmen Alvarado**  
Vice President  
Housing Asset Management Director

**Carmen Y. Cordero-Negrón**  
Assistant Vice President  
Auditing & Compliance Manager

**PUERTO RICO PUBLIC  
FINANCE CORPORATION**  
**José V. Pagán-Beauchamp**  
Executive Director

**PUERTO RICO TOURISM  
DEVELOPMENT FUND**  
**Javier A. Ramos-Luñía**  
Executive Director

**PUERTO RICO DEVELOPMENT FUND**  
**Héctor Méndez-Vázquez**  
Executive Director

**GDB CAPITAL FUND**  
**Héctor Méndez-Vázquez**  
Executive Director

**AFFILIATES**  
**PUERTO RICO MUNICIPAL  
FINANCING AGENCY**  
**José V. Pagán-Beauchamp**  
Executive Director

**PUERTO RICO INDUSTRIAL,  
TOURIST, EDUCATIONAL, MEDICAL,  
AND ENVIRONMENTAL CONTROL  
FACILITIES FINANCING AUTHORITY  
(AFICA)**  
**José V. Pagán-Beauchamp**  
Executive Director

**PUERTO RICO INFRASTRUCTURE  
FINANCING AUTHORITY (PRIFA)**  
**Ramón Amador-Bidot**  
Executive Director

**José I. Colón-Rodríguez**  
Budget & Management Director

**Roxana Santaella-Vélez**  
Administration and Finances  
Director

**Magda L. Aguiar-Serrano, Esq.**  
Legal Advisor

## FINANCIAL HIGHLIGHTS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)  
June 30, 2002

### FINANCIAL CONDITION TRENDS AS OF JUNE 30, (IN THOUSANDS)

	2002	2001	2000	1999	1998	1997
Total assets	\$ 8,676,445	\$7,823,596	\$8,252,487	\$8,228,588	\$7,858,424	\$7,548,874
Federal funds sold and securities purchased under agreements to resell	1,376,500	1,605,540	782,104	572,036	549,235	902,855
Deposits placed with banks and commercial paper	515,839	20,966	82,483	203,020	522,432	442,299
Investment and trading securities	2,570,394	1,620,489	3,199,590	3,383,323	3,644,354	2,959,337
Loans, net	2,229,643	3,854,974	3,547,295	3,315,640	2,881,853	3,036,611
Deposits	3,868,109	3,158,654	3,547,507	3,655,748	4,214,000	3,409,411
Other borrowed funds	1,497,347	1,154,240	1,278,451	1,664,561	1,121,504	1,114,203
Net assets	2,002,188	1,732,085	1,647,149	1,544,649	1,437,956	1,305,276

### INCOME AND EXPENSE TRENDS FOR THE YEAR ENDED JUNE 30, (IN THOUSANDS)

	2002	2001	2000	1999	1998	1997
Investment income - including changes in fair value	\$247,496	\$157,419	\$186,440	\$231,405	\$247,948	\$291,074
Interest income on loans	245,517	255,985	239,514	157,257	188,892	172,423
Total investment income	493,013	413,404	425,954	388,662	436,840	463,497
Total interest expense	248,857	273,537	278,173	261,578	262,198	277,755
Net interest income	244,156	139,867	147,781	127,084	174,642	185,742
Provision for loan losses	417	2,678	(2,433)	(8,633)	(23,500)	6,185
Net interest income after provision for loan losses	243,739	137,189	150,214	135,717	198,142	179,557
Non-interest income	258,439	38,713	37,499	31,765	18,398	19,113
Non-interest expense	284,482	90,966	85,213	60,789	83,860	48,807
Change in net assets	217,696	84,936	102,500	106,693	132,680	149,863

### PROFITABILITY AND CAPITALIZATION RATIOS AS OF, OR FOR THE YEAR ENDED, JUNE 30,

Enterprise Funds	2002	2001	2000	1999	1998	1997
Return on average assets	1.756%	1.057%	1.244%	1.326%	1.722%	2.058%
Change in net assets to average net assets	7.895%	5.027%	6.423%	7.154%	9.673%	12.181%
Average net assets to average assets	22.24%	21.02%	19.37%	18.54%	17.80%	16.90%
Net interest margin	2.13%	1.11%	1.28%	1.03%	1.61%	1.82%
Net interest yield	3.02%	1.90%	1.96%	1.69%	2.34%	2.61%

**HEADQUARTERS**

PO Box 42001  
San Juan, Puerto Rico 00940-2001  
Tel. (787) 722-2525  
Facsimile (787) 721-1443  
www.gdb.pur.com  
gdbcomm@bgf.gobierno.pr

**NEW YORK OFFICE**

140 Broadway, 38th Floor  
New York, NY 10005  
Tel. (212) 422-6420  
Facsimile (212) 785-0643

The 2002 Annual Report of the  
Government Development Bank for  
Puerto Rico was produced by its Office  
of Communications and Publications.

**DIRECTOR OFFICE OF  
COMMUNICATIONS AND  
PUBLICATIONS**

María Socorro Rosario-Claudio

**GDB NEW YORK OFFICE  
DIRECTOR / SPECIAL EDITOR**

M. Salomé Galib

**PUBLICATIONS MANAGER**

Anabel Hernández-González

**TEXT**

Marilyn Rivera-Olivieri

**GRAPHIC DESIGN AND  
PRINTING SUPERVISION**

Sylvia Aldebol-Valentín

**PHOTOGRAPHY**

Ricardo Guerra

ATI photo on page 18

Rafael Luna

Front cover photo

Sylvia Aldebol-Valentín

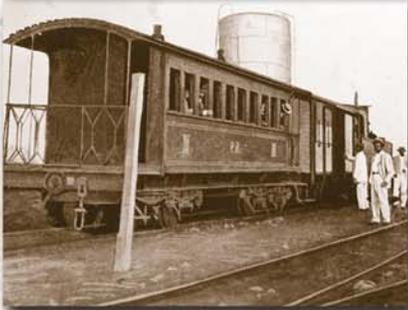
Back cover

Historic photos and GDB seal

**PRINTING**

Elmendorf Colors Inc.





**GOVERNMENT DEVELOPMENT  
BANK FOR PUERTO RICO**