

**NEW ISSUE - BOOK ENTRY ONLY**

See “Book-Entry Only System” under *The Notes*

**\$151,259,000**

**Government Development Bank for Puerto Rico  
Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds)**

The Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds) are being issued by Government Development Bank for Puerto Rico pursuant to the provisions of a trust indenture, dated February 17, 2006, as amended or supplemented, between the Bank and Banco Popular de Puerto Rico, as trustee. The Bank will use the proceeds from the sale of the Notes for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. See *Use of Proceeds* herein.

The Bank will issue the Notes as “Build America Bonds” that are subject to United States income taxes (except to bona fide residents of Puerto Rico to the extent described herein). Upon compliance with certain requirements of the U.S. Internal Revenue Code, the Bank will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on the Notes. The subsidy will be paid directly to the Bank and not to the holders of the Notes. Under no circumstances will the owners of the Notes be entitled to a credit against any taxes imposed by the U.S. Internal Revenue Code as a result of their ownership of the Notes.

Concurrently with the issuance of the Notes, the Bank expects to issue its Senior Notes, 2010 Series A (the “Series A Notes”). The Series A Notes shall be offered for sale solely in Puerto Rico. The issuance of the Notes is not contingent upon the issuance of the Series A Notes.

The Notes have the following characteristics:

- Interest will be payable on November 1, 2010 and quarterly thereafter on each February 1, May 1, August 1 and November 1.
- Redeemable at the option of the Bank beginning on August 1, 2011 and on any date thereafter, without premium.
- Issued as fully registered notes without coupons in denominations of \$5,000 principal amount and integral multiples of \$1,000 in excess thereof.

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

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

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

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

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

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

**UBS Financial Services Incorporated of Puerto Rico**

**Popular Securities**

**Barclays Capital**

**BofA Merrill Lynch**

**Samuel A. Ramirez & Co., Inc.**

**Oriental Financial Services**

**Santander Securities**

**BBVAPR MSD**

**Raymond James**

**Wells Fargo Securities, LLC**

July 23, 2010

**\$151,259,000**  
**Government Development Bank for Puerto Rico**  
**Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds)**

<b>Maturity Date</b>	<b>Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>CUSIP</b>
<u>August 1,</u> 2025	<u>\$151,259,000</u>	<u>5.75%</u>	<u>100.00%</u>	<u>745177EP6</u>

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

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

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

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

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## SUMMARY

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

### Government Development Bank

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

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

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

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

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

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

### Details of the Notes

Offering .....	Government Development Bank for Puerto Rico Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds) (the “Notes”).
Issuer .....	Government Development Bank for Puerto Rico.
Aggregate Principal Amount.....	\$151,259,000
Interest .....	Interest will be payable on November 1, 2010 and quarterly thereafter on each February 1, May 1, August 1 and November 1.

- Use of Proceeds ..... The Bank will use the proceeds from the sale of the Notes for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures. See *Use of Proceeds* herein.
- Optional Redemption ..... The Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on August 1, 2011 and on any date thereafter, subject to at least 20 days' prior notice.
- Extraordinary Redemption ..... The Notes are subject to redemption at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, upon the occurrence of an Extraordinary Event (as defined herein).
- Note Program ..... The Notes are being issued pursuant to the provisions of a trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between the Bank and Banco Popular de Puerto Rico, as trustee, and a resolution adopted by the Executive Committee of the Bank's Board of Directors on July 23, 2010. Under the Indenture, the Bank may issue additional notes on a parity with any notes issued under the Indenture. See INTRODUCTORY STATEMENT herein for additional information on the other series of notes that have been previously issued by the Bank under the Indenture.
- Unsecured Notes ..... The Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Bank guarantees of obligations of others for borrowed money now or hereafter outstanding. Neither the good faith, credit and taxing power of the Commonwealth nor that of any of its political subdivisions or instrumentalities is pledged for the payment of the Notes.
- Additional Debt Securities..... Under the Indenture, the Bank may issue additional debt securities and may otherwise incur additional indebtedness without restriction.
- Availability of Assets of  
the Bank's Subsidiaries for  
Payment of the Notes ..... Because the Notes are issued by the Bank and are not guaranteed by the Bank's subsidiaries, holders of the Notes will not have recourse against the Bank's subsidiaries.

As of June 30, 2009, approximately \$1.6 billion out of the Bank's consolidated total assets of \$14.0 billion were held by the Bank's subsidiaries and are, therefore, unavailable for payment of debt service on the Notes. As of March 31, 2010, total assets held by the Bank's subsidiaries were \$1.5 billion out of a total of \$13.6 billion.

Absence of Public Market ..... The Notes are a new issue of securities. There is no assurance that a secondary market for the Notes will develop, or if it does develop, that it will provide the holders of the Notes with liquidity for their investment or that it will continue for the life of the Notes.

Governing Law ..... All rights and obligations under the Notes will be governed by and construed in accordance with the laws of Puerto Rico.

Rating ..... The Notes have received a rating of “BBB” by Standard & Poor’s Ratings Services (“S&P”). For a description of the rating on the Notes, see *Rating*.

Book-Entry Form ..... The Notes will be issued in book-entry form through the book-entry only system of The Depository Trust Company. Purchasers of the Notes will not receive definitive Notes.

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

**FINANCIAL HIGHLIGHTS OF  
GOVERNMENT DEVELOPMENT BANK AND ITS SUBSIDIARIES**

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

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

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

**\$151,259,000**  
**Government Development Bank for Puerto Rico**  
**Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds)**

**INTRODUCTORY STATEMENT**

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

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

Concurrently with the issuance of the Notes, the Bank expects to issue its Senior Notes, 2010 Series A (the “Series A Notes”). The Series A Notes shall be offered for sale solely in Puerto Rico. The issuance of the Notes is not contingent upon the issuance of the Series A Notes.

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

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

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

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

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

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

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

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

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

### **Incorporation of Commonwealth Financial Information**

This Official Statement incorporates by reference the Commonwealth Report.

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

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

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

## RECENT DEVELOPMENTS RELATING TO THE COMMONWEALTH

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

### *Approved Budget for Fiscal Year 2011*

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

### *Preliminary Results for Fiscal Year 2010*

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

## INVESTMENT CONSIDERATIONS

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

### **Risks related to the Bank's operations**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Risks related to the Notes**

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

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

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

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

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

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

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

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

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

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

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

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

***A secondary market for the Notes may not develop***

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

## **USE OF PROCEEDS**

The Bank will use the proceeds from the sale of the Notes for making loans to the Commonwealth and its public corporations, instrumentalities and municipalities to be used to finance capital expenditures.

The Bank will designate the Notes as “Build America Bonds” under Section 54AA of the Internal Revenue Code of 1986, as amended (“U.S. Code”), and elect under U.S. Code Section 54AA(g) to receive a credit from the United States Treasury equal to 35% of the stated interest paid on such Notes as provided in U.S. Code Section 6431.

## **THE NOTES**

### **General**

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

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

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

### **Optional Redemption**

The Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on August 1, 2011 and on any date thereafter.

## **Extraordinary Redemption**

The Notes are subject to redemption at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, upon the occurrence of an Extraordinary Event (defined herein). An “Extraordinary Event” will have occurred if the Bank determines that a material adverse change has occurred to Section 54AA or 6431 of the U.S. Code (as such Sections were added by Section 1531 of the American Recovery and Reinvestment Act of 2009, pertaining to “Build America Bonds”) or there is any guidance published by the United States Internal Revenue Service (the “IRS”) or the United States Treasury with respect to such Sections or any other determination by the IRS or the United States Treasury, which determination is not the result of any act or omission by the Bank to satisfy the requirements to qualify to receive the federal subsidy from the United States Treasury, pursuant to which the federal subsidy from the United States Treasury is reduced or eliminated.

## **Notice and Effect of Redemption; Partial Redemption**

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

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

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

## **Unsecured Obligations of the Bank**

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

## **Book-Entry Only System**

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

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

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

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

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

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

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

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

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

### **Payments and Transfers**

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

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

### **Discontinuance of the Book-Entry Only System**

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

## THE BANK

### Organization and Powers

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

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

### Principal Functions

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

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

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

### Board of Directors and Management

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

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

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

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

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

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

**Jesús F. Méndez** was appointed Executive Vice President and Director of Administration, Operations and Controllershship on January 7, 2009. He was also appointed Executive Director of the Puerto Rico Public Buildings Authority (“PBA”). Before being named Executive Vice President of the Bank, from 2005 to 2008, Mr. Méndez held the position of President and Chief Executive Officer of Tresamici Management, Inc, a closely held corporation dedicated to the administration of assisted living facilities, of which he holds a one-third ownership participation. From 1996 to 2004 he held several senior management positions within Banco Santander S.A. operating entities in Puerto Rico including, President of Santander Asset Management and First Senior Vice President and Trust Officer of Banco Santander Puerto Rico and Managing Director of Santander Securities Corporation. Prior to joining Santander Securities, Mr. Méndez served as Chief Financial Officer and Managing Director of BP Capital Markets. He also worked for Credit Suisse First Boston (Puerto Rico, Inc.) as Vice President and for Deloitte & Touche as Senior Auditor. In addition, Mr. Méndez also held the position of Assistant Bank Examiner at the Federal Deposit Insurance Corporation in New York City. Mr. Méndez has a Bachelor's Degree in Business Administration from the University of Puerto Rico and is a Certified Public Accountant.

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

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

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

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

## Government Development Bank Subsidiaries

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

*Housing Finance Authority.* Puerto Rico Housing Finance Authority (formerly known as Puerto Rico Housing Finance Corporation) (“Housing Finance Authority”) was created to provide needed rental housing units and stimulate the construction industry under federally subsidized programs. Effective February 8, 2002, Housing Finance Corporation became the Housing Finance Authority and the Housing Bank and Finance Agency was dissolved and its powers transferred to the Housing Finance Authority. Housing Finance Authority provides financing for rental housing units, stimulates the construction industry under federally subsidized programs and provides interim financing for low-income housing projects and single-family homeownership programs. It is also engaged in insuring and servicing mortgages originated by the former Housing Bank and Finance Agency. As of March 31, 2010, the Housing Finance Authority’s total outstanding principal balance of loans to the private sector for development of housing projects targeted to low and moderate income families was \$134.3 million. The Housing Finance Authority’s mortgage loans to low and moderate income homeowners represented an additional outstanding principal balance of \$99.3 million as of the same date.

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

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

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

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

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

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

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

### **General Financial Information**

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

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

#### *Consolidated Schedule of Net Assets*

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

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

*Schedule of Balance Sheet Information – Government Development Bank Operating Fund*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Investment Portfolio

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

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

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

<sup>(1)</sup> Includes U.S. Treasury Bonds and Notes, U.S. agencies and collateralized obligations.

<sup>(2)</sup> Includes Federal Funds, certificates of deposit and time deposits.

<sup>(3)</sup> Includes U.S. municipal notes, asset-backed securities, corporate bonds and bonds of the Commonwealth, its municipalities and instrumentalities.

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

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

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

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

## Loans to the Commonwealth, its Public Corporations and Municipalities

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

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

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

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

Act No. 164 of 2001, as amended (“Act No. 164”), prohibits the Bank from making loans to any governmental entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislative Assembly, except for (i) loans up to an aggregate amount of \$200,000,000 (this amount is reduced to \$100,000,000 after June 30, 2011) as long as, among other things, the Bank obtains the written approval of the Governor and the Director of the Office of Management and Budget (“OMB”), (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues.

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

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

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

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

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

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

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

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

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

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

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

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

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

PRASA needs to make a substantial investment in infrastructure and a major overhaul of its operations to maintain the viability of the Systems and to finance its expansion for new users. Funds for this investment will be provided through a combination of revenues from PRASA, financing transactions, federal grants and other sources. Debt service on revenue bonds is payable from net revenues of the Systems after payment of current expenses. Due to PRASA’s financial difficulties and its inability to access the bond market, the Commonwealth guarantees the principal and interest payments to the bondholders of all outstanding revenue bonds issued by PRASA, including those issued to the United States Department of Agriculture, Rural Development, and loans granted by the Clean Water and Drinking Water State Revolving Funds for the benefit of PRASA. In July 2010 2004, this guaranty was extended through new legislation to include debt obligations issued until 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Loans to Private Enterprises**

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

### **SUMMARY OF THE INDENTURE**

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

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

### **Events of Default and Remedies**

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

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

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

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

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

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

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

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

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

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

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

- first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments became due and payable, with interest on such installments of interest, to the extent permitted by law, at the rate of such interest from the respective dates upon which such installments became due and payable, and, if the amount available is not sufficient to pay in full any particular installment, together with interest thereon, then to the payment first of the interest on such installment, ratably, according to the amount of such interest due on such date, and then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto;
- second: to the payment to the persons entitled thereto of the unpaid principal of any Notes, which shall have become due and payable in the order of their due dates, with interest on the principal amount of such Notes, at the respective rates specified therein from the respective dates upon which such Notes became due and payable, and, if the amount available is not sufficient to pay in full the principal of the Notes due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal ratably, according to the amount of such principal due on such date, to the persons entitled thereto; and
- third: to the payment of the interest on and the principal of the Notes and to the redemption of Notes all in accordance with the provisions of the Indenture.

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Amendments or Supplements to the Indenture**

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

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

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

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

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

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

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

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

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

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

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

### **Defeasance**

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

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

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

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

### **Additional Debt Securities**

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

### **Certain Rights of the Trustee**

In the Indenture, the Bank has agreed:

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

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

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

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

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

In the performance of its duties:

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

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

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

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

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

## TAX MATTERS

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

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

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

## **Puerto Rico Tax Considerations**

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

1. Interest on the Notes is exempt from Puerto Rico income and withholding taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code");
2. The Notes are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended;
3. The transfer of the Notes by (i) gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico;
4. Gain recognized from the sale or exchange of a Note will be subject to income tax under the P.R. Code to taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of Puerto Rico;
5. The Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1112(f)(2)(A) of the P.R. Code applicable to certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1102 of the P.R. Code available to corporations and partnerships that have a certain percentage of their net income invested in obligations of instrumentalities of Puerto Rico and certain other investments; and
6. Interest on the Notes constitutes "industrial development income" under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Tax Incentives Act of 1987, the Puerto Rico Tax Incentives Act of 1998, and the Economic Incentives for the Development of Puerto Rico Act, as amended (collectively, the "Acts"), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the Notes with "eligible funds," as such term is defined in the Acts.

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

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

## United States Federal Tax Considerations

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

### United States Taxation - In General

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

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

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

## **Puerto Rico U.S. Holder and Puerto Rico Corporation**

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

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

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

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

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

### **U.S. Holder**

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

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

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a debt instrument, such as a Note, over its issue price, if such excess equals or exceeds a *de minimis* amount (generally  $\frac{1}{4}$  of 1% of the debt instrument’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a debt instrument providing for the payment of any amount other than qualified stated interest (as defined below) prior to

maturity, multiplied by the weighted average maturity of such debt instrument). The issue price of each maturity of substantially identical Notes equals the first price at which a substantial amount of such maturity of Notes has been sold (without taking into account sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a Note is the sum of all payments provided by the Notes other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer), or that will be constructively received under Section 451 of the U.S. Code, at least annually at a single fixed rate.

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

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

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

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

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

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

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

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

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

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

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

### **Build America Bonds**

The Bank intends to issue the Notes as “Build America Bonds” pursuant to the American Recovery and Reinvestment Act of 2009 and to elect to receive a subsidy payment from United States Treasury equal to 35% of the interest the Bank pays on the Notes. Under no circumstances will the owners of the Notes be entitled to a credit against the taxes imposed by the U.S. Code with respect to the Notes. The Bank has no obligation to the owners of the Notes to maintain the status of the Notes as Build America Bonds. The U.S. Code imposes certain requirements that must be met subsequent to the issuance and delivery of the Notes in order for the Bank to receive the cash subsidy payment. If the Bank does not comply with these requirements, it will not be entitled to receive the cash subsidy payment. Prospective owners of the Notes that are Puerto Rico U.S. Holders should consult their own independent tax advisor regarding the tax consequences of owning the Notes.

### **Backup Withholding**

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

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

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

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

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

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

## **ERISA CONSIDERATIONS**

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

In addition, certain parties to the offering may be considered a party in interest within the meaning of ERISA, or a disqualified person within the meaning of the U.S. Code, with respect to many Plans, as well as many individual retirement accounts and plans established by self-employed individuals or Keogh plans (also “Plans”). Prohibited transactions within the meaning of ERISA or the U.S. Code would likely arise, for example, if the Notes are acquired by or with the assets of a Plan with respect to which one of the underwriters or certain of its affiliates is a party in interest, unless the Notes are acquired pursuant to an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the U.S. Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

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

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

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

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

## **RATING**

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

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

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Notes from the Bank at an aggregate discount of \$2,307,635.00 from the initial offering prices of the Notes set forth or derived from information set forth on the inside cover of this Official Statement. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the Notes, if any such Notes are purchased. The Underwriters may offer to sell the Notes to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed, from time to time, by the Underwriters.

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

## **LEGAL MATTERS**

All legal matters incident to the authorization, issuance, sale and delivery of the Notes are subject to the approval of O’Neill & Borges, Bond Counsel. The issuance of the Notes is conditioned upon the delivery on their date of issuance of the approving opinion of Bond Counsel substantially in the form attached to this Official Statement as *Appendix II* and a tax opinion from Special Tax Counsel substantially in the form attached to this Official Statement as *Appendix III*. Certain legal matters will be passed for the Underwriters by their counsel, Fiddler, González & Rodríguez, PSC, San Juan, Puerto Rico, and for the Bank by Greenberg Traurig, LLP, Boston, Massachusetts, as Special Tax Counsel.

## LEGAL INVESTMENT

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

## CONTINUING DISCLOSURE

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

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

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

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

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

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

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

Event (h). The Bank does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement under “*The Notes — Redemption*,”

the only open issue is which Notes will be redeemed in the case of a partial redemption, notice of redemption is given to the Noteholders as required under the terms of the Notes, and public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of Notes.

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

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

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

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

The Covenants may only be amended if:

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

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

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

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

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

## **LITIGATION**

The Bank is involved in various lawsuits arising in the normal course of its business. With respect to pending and threatened litigation, as of March 31, 2010 the Bank has included in its financial statements accrued liabilities amounting to approximately \$658,000 for awarded and anticipated unfavorable judgments. This amount represents a probable liability with a fixed or expected due date, which would require future

available financial resources for its payment. In the opinion of the Bank and its General Counsel, the ultimate liability in excess of amounts provided in the financial statements, if any, would not be significant.

### **MISCELLANEOUS**

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

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

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

### **GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

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









































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

**BALANCE SHEET — GOVERNMENTAL FUNDS**  
**AS OF JUNE 30, 2009**

	Affordable Housing Mortgage Subsidy Program — Stage 7	Affordable Housing Mortgage Subsidy Program — Stage 8	Affordable Housing Mortgage Subsidy Program — Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
<b>ASSETS:</b>									
Due from other funds	\$ -	\$ 31,769	\$ -	\$ 36,883	\$ 591,748	\$ -	\$ 15,548,410	\$(13,196,483)	\$ 3,012,327
Restricted:									
Cash and due from banks		87,169				2,161,623	109,213		2,358,005
Deposits placed with banks					13,846,078		12,515,927		26,362,005
Investments and investment contracts	21,869,155	1,535,266	12,476,026				63,377,461		99,257,908
Loans receivable, net							2,062,522		2,062,522
Due from other funds		14,008,526		25,446	60,343	784,351	19,163,475		34,042,141
Interest and other receivables	86,611	7,737	2,807		138,944	2,511,356	166,321		2,913,776
Real estate available for sale							519,467		519,467
<b>TOTAL</b>	<b>\$ 21,955,766</b>	<b>\$ 15,670,467</b>	<b>\$ 12,478,833</b>	<b>\$ 62,329</b>	<b>\$ 14,637,113</b>	<b>\$ 5,457,330</b>	<b>\$ 113,462,796</b>	<b>\$(13,196,483)</b>	<b>\$ 170,528,151</b>
<b>LIABILITIES:</b>									
Due to other funds	\$ 70,832,544	\$ -	\$ 340,458	\$ 49,673,903	\$ -	\$ 1,013,195	\$ 13,612,088	\$(13,196,483)	\$ 122,275,705
Restricted — accounts payable and accrued liabilities	1,287,018	498,422	294,452	5,698,700	34,601	4,444,135	2,381,429		14,638,757
<b>Total liabilities</b>	<b>72,119,562</b>	<b>498,422</b>	<b>634,910</b>	<b>55,372,603</b>	<b>34,601</b>	<b>5,457,330</b>	<b>15,993,517</b>	<b>(13,196,483)</b>	<b>136,914,462</b>
<b>FUND BALANCES (DEFICIT):</b>									
Reserved for:									
Long-term loans receivable and other asset:							2,581,989		2,581,989
Debt service							29,079,599		29,079,599
Unreserved — special revenue funds	(50,163,796)	15,172,045	11,843,923	(55,310,274)	14,602,512		65,807,691		1,952,101
<b>Total fund balances (deficit)</b>	<b>(50,163,796)</b>	<b>15,172,045</b>	<b>11,843,923</b>	<b>(55,310,274)</b>	<b>14,602,512</b>	<b>-</b>	<b>97,469,279</b>	<b>-</b>	<b>33,613,689</b>
<b>TOTAL</b>	<b>\$ 21,955,766</b>	<b>\$ 15,670,467</b>	<b>\$ 12,478,833</b>	<b>\$ 62,329</b>	<b>\$ 14,637,113</b>	<b>\$ 5,457,330</b>	<b>\$ 113,462,796</b>	<b>\$(13,196,483)</b>	<b>\$ 170,528,151</b>
Amounts reported for governmental activities in the statement of net assets are different because:									
Total fund balance									\$ 33,613,689
Deferred bond issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements									329,908
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds									(4,811,237)
Accrued interest payable not due and payable in the current period									(256,832)
<b>Net assets of governmental activities</b>									<b>\$ 28,875,528</b>

See notes to basic financial statements.

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

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES — GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

See notes to basic financial statements.

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

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

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

Net change in fund balances — total governmental funds	\$(33,346,788)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds	150,768
Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds	(24,860,409)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	3,850,908
Governmental funds report the effect of issuance costs when debt is first issued, whereas these costs are deferred and amortized in the statement of activities. This amount is the amortization for the year	<u>(16,500)</u>
Change in net assets of governmental activities	<u><u>\$(54,222,021)</u></u>

See notes to basic financial statements

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

**BALANCE SHEET — ENTERPRISE FUNDS**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

(Continued)

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

**BALANCE SHEET — ENTERPRISE FUNDS**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

(Continued)

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

**BALANCE SHEET — ENTERPRISE FUNDS**  
**AS OF JUNE 30, 2009**

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

See notes to basic financial statements.

(Concluded)

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

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS — ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

See notes to basic financial statements.

(Continued)





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

**STATEMENT OF CASH FLOWS — ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2009**

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

See notes to basic financial statements.

(Continued)

















receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Nonaccrual loans are returned to an accrual status when management has adequate evidence to believe that the loans will be performing as contracted.

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

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

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

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately \$5,063,010,000 or 36.1% of the Bank's total assets as of June 30, 2009. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by, the Commonwealth, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past seven years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation, and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

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





































**12. CERTIFICATES OF INDEBTEDNESS**

Certificates of indebtedness consist of time deposits from corporations that have grants of tax exemptions under the Commonwealth's industrial incentives laws. The following summarizes the certificates of indebtedness activity for the year ended June 30, 2009:

	<b>Beginning Balance</b>	<b>Issuances</b>	<b>Maturities</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
GDB Operating Fund	<u>\$ 11,800,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,800,000</u>	<u>\$ -</u>

At June 30, 2009, certificates of indebtedness amounting to approximately \$7.5 million contractually mature during the fiscal year ending June 30, 2011 and approximately \$4.3 million contractually mature during the fiscal year ending June 30, 2012.

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

The activity of bonds payable and other borrowed funds for the year ended June 30, 2009 is as follows:

	<b>Beginning Balance</b>	<b>Debt Issued</b>	<b>Debt Paid</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Governmental activities — commonwealth appropriation bonds and notes: Note payable — AHMSP Stage 7	<u>\$ 4,962,005</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(150,768)</u>	<u>\$ 4,811,237</u>	<u>\$ -</u>

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

The annual debt service requirements to maturity, including principal and interest, for long-term debt, (excluding notes payable by component units to the Bank) as of June 30, 2009, are as follows:

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

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

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

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

Description and Maturity Date	Interest Rate	Amount Outstanding
Note payable Affordable Housing Mortgage Subsidy Program Stage 7 — due on July 1, 2009 each July thereafter to July 1, 2031	4.10%–5.25%	<u>\$4,811,237</u>

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

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

The Note’s outstanding balance at June 30, 2009 was \$4,811,237 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by Public Finance Corporation on all the PFC Bonds issued by Public Finance Corporation under Act No. 164.

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

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

**Adjustable Refunding Bonds** — On August 1, 2008, the Bank repurchased the \$267 million outstanding balance of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. The Bank expects to reissue these bonds at a fixed rate during fiscal year 2010.

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

ranging from 5.50% to 6.50%. The 2008 Series A Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

**GDB Senior Notes 2008, Series B** — On January 8, 2009, the Bank issued \$285,467,000 of Senior Notes, 2008 Series B, (the “2008 Series B Notes”). The 2008 Series B Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2008 Series B Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

**GDB Senior Notes 2009, Series A** — On January 29, 2009, the Bank issued \$250,000,000 of Senior Notes, 2009 Series A, (the “2009 Series A Notes”). The 2009 Series A Notes consist of term notes maturing on various dates from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series A Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

**GDB Senior Notes 2009, Series B** — On June 30, 2009, the Bank issued the \$200,000,000 of Senior Notes, 2009 Series B, (the “2009 Series B Notes”). The 2009 Series B Notes consist of term notes maturing on various date from February 1, 2012 to February 1, 2019 and carrying fixed interest rates ranging from 5.50% to 6.50%. The 2009 Series B Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part, at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.

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

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

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

The Note bears interest at a fixed rate of 7.5%, which is payable on a quarterly basis, and originally matured on April 9, 2009. In August 2008, The Tourism Development Fund agreed to extend the maturity to July 1, 2018 and approved a conditional-commitment to provide a guarantee for a permanent loan to be provided by the financial institution upon completion of the construction of some amenities and subject to compliance with certain conditions. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to \$26 million as of June 30, 2009.

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

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

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

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

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

#### 14. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

The Housing Finance Authority is required by law to maintain an allowance for losses on insured mortgage loans, which is computed as a percentage of the outstanding principal balance of the insured mortgage loans. Losses incurred upon the foreclosure and subsequent gains or losses on the disposal of properties are credited/charged to the allowance for losses on mortgage loan insurance. At June 30, 2009, the Housing Finance Authority had restricted net assets for such purposes of approximately \$58.6 million.

#### 15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

At June 30, 2009, the off-balance-sheet risks consisted of the following (in thousands):

Financial instruments whose credit risk is represented by contractual amounts:		
Financial guarantees:		
Public sector		\$ 79,242
Private sector		<u>22,638</u>
Total		<u>\$ 101,880</u>
Standby letters of credit:		
Public sector		\$ 632,683
Private sector		<u>109,090</u>
Total		<u>\$ 741,773</u>
Commitments to extend credit — Public sector		<u>\$2,253,718</u>

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

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

## 16. RETIREMENT SYSTEM

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

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

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

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

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

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

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

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

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

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2009 amounted to approximately \$904,000 and \$1,087,000 respectively. The Bank's contributions during the years ended June 30, 2009, 2008, and 2007 amounted to approximately \$1,946,000, \$1,982,000, and \$1,787,000, respectively. These amounts represented 100% of the required contribution for the corresponding year. Individual information for each option is not available since the allocation is performed by the Retirement System itself.

Additional information on the Retirement System is provided in its stand alone financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Employees' Retirement System of the Commonwealth of Puerto Rico and its instrumentalities, P.O. Box 42004, San Juan PR 00940-2004.

## 17. COMMITMENTS AND CONTINGENCIES

**Lease Commitments** — The Bank leases office and storage space from the governmental and private sector. Principally, office space is leased under a short-term operating lease agreement that renews automatically every year, if it is not canceled by any of the parties before the beginning of each year. The storage space agreement expires in 2011.

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

Rent charged to operations in fiscal year 2009 amounted to approximately \$2.9 million. At June 30, 2009, the minimum annual future rentals under noncancelable leases are approximately as follows:

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

**Cooperative Development Investment Fund** — On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the Bank up to \$25 million to be matched by cooperative entities. As of June 30, 2009, the Bank has contributed \$15.6 million to the Cooperative Development Investment Fund, \$985,000 million of which were contributed during the year ended June 30, 2009.

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

**Loan Guarantees** — The Development Fund has entered into an agreement (the “Agreement”) with Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (the “Program”). Under the Agreement, the Development Fund would assign \$10 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. On August 28, 2008, the Development Fund and EDB amended the Agreement to increase from \$10 million to \$15 million the Development Fund’s capital designated for the program. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed \$50,000. At June 30, 2009, outstanding guarantees amounted to approximately \$14,747,000, and the allowance for losses on guarantees amounted to approximately \$3.1 million.

**Custodial Activities of Enterprise Funds** — At June 30, 2009, the Housing Finance Authority was custodian of approximately \$192,000 in restricted funds of CRUV. As of June 30, 2009, such funds are deposited with the Bank. These funds are not owned by the Housing Finance Authority’s enterprise funds and thus are not reflected in the accompanying basic financial statements.

**Loan Sales and Securitization Activities** — On July 13, 1992, the Housing Bank entered into an agreement to securitize approximately \$20.7 million of mortgage loans into a FNMA certificate. The Housing Finance Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that become delinquent for 120 days or more. As of June 30, 2009, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately \$643,000.

**Mortgage Loan Servicing Activities** — The Housing Finance Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2009, the principal balance of the mortgage loans serviced for others is approximately as follows:

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

**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.

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

The Public Finance Corporation has issued approximately \$5.9 billion of Commonwealth appropriation bonds (the "Bonds") maturing at various dates through 2032. The proceeds of the Bonds, except for approximately \$1.7 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth, and certain of its instrumentalities and public corporations (the "Promissory Notes"). The \$1.7 billion referred to above were used to refund a portion of certain bonds issued by the Public Finance Corporation (also no-commitment debt) between fiscal years 1995 and 2005. The outstanding balance of the Bonds at June 30, 2009 amounted to approximately \$1.6 billion.

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

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

Certain bonds of the Housing Finance Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2009, there were restricted assets held in trust by others, outstanding obligations, fund balances, and excess of fund expenses over revenues, net of transfers (all of which are excluded from the accompanying basic financial statements), as indicated below (unaudited):

Restricted assets	\$9,222,065
Restricted liabilities (no-commitment debt)	<u>8,013,477</u>
Restricted fund balance	<u>\$ 1,208,588</u>
Excess of fund expenses over revenues	<u>\$ 160,346</u>

In December 2003, the Housing Finance Authority issued \$663 million in Capital Fund Program Bonds Series 2003 to lend the proceeds thereof to the Public Housing Administration (PHA), a governmental instrumentality of the Commonwealth. PHA utilized such funds for improvements to various public housing projects in the Commonwealth. The Capital Fund Program Bonds Series 2003 are limited obligations of the Housing Finance Authority, which will be paid solely from an annual allocation of public housing capital funds when received from the U.S. Department of Housing and Urban Development and other funds available under the bonds indenture. Accordingly, these bonds are considered no-commitment debt and are not presented in the accompanying basic financial statements. The outstanding balance of these bonds amounted to \$572 million at June 30, 2009.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to \$384,475,000 and the Housing Revenue Bonds amounting to \$100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company (the "LLC") and pay the costs of issuance. The \$384,475,000 bonds are limited obligations of the Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of \$368,620,000 at June 30, 2009. The \$100,000,000 bonds are also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the LLC using moneys received as a grant from the Department of Housing of Puerto Rico. Payment of principal, of the Housing Revenue Bonds is also secured by an irrevocable standby letter of credit issued by the Bank. These bonds are considered no-commitment debt and, accordingly, are excluded, along with the related assets held in trust, from the Housing Finance Authority's financial statements.

In addition, the Housing Finance Authority, as a public agency is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under HUD Programs. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to \$118,532,083 for the year ended June 30, 2009. This amount includes \$4,303,112 of administrative fees for services performed as contract administrator, which are reimbursed by the U.S. Department of Housing and Urban Development.

#### **19. CONTRIBUTION FROM PUERTO RICO INFRASTRUCTURE FINANCE AUTHORITY**

On January 14, 2009, the Legislature of the Commonwealth enacted Act No. 3 to, among other, authorize the Puerto Rico Infrastructure Financing Authority to sell securities deposited at a corpus account, the proceeds of which would be used, among other, to make a contribution to the Bank. Approximately, \$154.2 million were contributed by the Puerto Rico Infrastructure Financing Authority to the Bank during fiscal year 2009.

#### **20. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

The fair values reflected below are indicative of the interest rate environment as of June 30, 2009, and do not take into consideration the effects of interest rate fluctuations. In different interest rate scenarios, fair value results can differ significantly. Furthermore, actual prepayments may vary significantly from those estimated resulting in materially different fair values.

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

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

- Short-term financial instruments, such as cash and due from banks, federal funds sold, deposits placed with banks, certificates of deposit, repurchase agreements, and accrued interest receivable and payable have been valued at the carrying amounts reflected in the statement of net assets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.
- Financial instruments that are primarily traded in secondary markets, such as most investments, were valued using either quoted market prices or quotations received from independent brokers/dealers.
- Financial instruments that are not generally traded, such as long-term deposits placed with banks, investment contracts, certificates of deposit, repurchase agreements, certificates of indebtedness, and bonds and notes issued with fixed interest rates, were fair valued using the present values of estimated future cash flows at the appropriate discount rates. Bonds and other borrowings issued with interest rates floating within certain ranges were fair valued at their outstanding principal balance. The fair value of liabilities with no defined maturities, such as demand deposits, was reported as the amounts payable upon demand.
- Loans to the public sector were valued according to the type of contractual interest rate. Loans to the public sector with interest rates floating within certain ranges were fair valued at their outstanding principal balance. Loans to the public sector with fixed interest rates were fair valued assuming that such loans were packaged and sold in the secondary market. The discount rates utilized were based on the rating of the Commonwealth and the market where the instruments would be sold. For delinquent public sector loans, the fair value was assumed to be equal to the carrying value, as historically the Bank has collected such amounts.
- Loans, participation agreement payable, and commitments to extend credit, financial guarantees and standby letters of credit to the private sector are mostly industrial development, tourism development, and low-cost housing development projects. For these types of loans and commitments, there is no secondary market, and the actual future cash flows may vary significantly as compared to the cash flows projected under the agreements, due to the degree of risk. Accordingly, management has opted not to disclose the fair value of these financial instruments, as such information may not be estimated with reasonable precision.
- Disclosure of the fair value of commitments to extend credit, standby letters of credit, and financial guarantees relating to instrumentalities of the Commonwealth is omitted, as these arrangements are with component units of the Commonwealth.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at June 30, 2009:

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

## 21. INTERFUND BALANCES AND TRANSFERS

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

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

(Continued)

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

(Continued)

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

(Concluded)

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

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

## 22. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit at June 30, 2009: AHMSP Stage 7, AHMSP Stage 10, and New Secure Housing Program for the amount of \$50.2 million, \$7.5 million and \$55.3 million, respectively. The deficit of the AHMSP Stage 7 and AHMSP Stage 10 is due to the amounts borrowed by the Housing Finance Authority from the Bank that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Authority's allowable costs. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth and through the liquidation and transfer of net assets of the Special Obligations Returning Bonds – Debt Service fund (see Note 23).

## 23. SUBSEQUENT EVENTS

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

\* \* \* \* \*

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

July , 2010

Government Development Bank for Puerto Rico  
San Juan, Puerto Rico

Ladies and Gentlemen:

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

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

**\$151,259,000**

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO  
Senior Notes, 2010 Series B (Issuer Subsidy Build America Bonds)**

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

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

From such examination, we are of the opinion that:

1. Said Act No. 17, as amended, has been validly enacted and is in full force and effect, and Government Development Bank is a duly constituted and existing public corporation and governmental instrumentality of the Commonwealth of Puerto Rico.
2. The Resolution has been validly and legally adopted.
3. The Indenture has been duly executed and delivered by Government Development Bank.
4. The Notes have been duly authorized and issued.
5. The Notes are valid and binding obligations of Government Development Bank.
6. The Notes do not constitute a debt of the Commonwealth of Puerto Rico, any of its public instrumentalities (other than Government Development Bank) or any of its municipalities or other political subdivisions, and neither the Commonwealth of Puerto Rico, any of its public instrumentalities (other than

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Very truly yours,

[FORM OF OPINION OF SPECIAL TAX COUNSEL]



July , 2010

Government Development Bank for Puerto Rico  
San Juan, Puerto Rico

Re: \$151,259,000 Government Development Bank for Puerto Rico Senior Notes,  
2010 Series B (Issuer Subsidy Build America Bonds)

Ladies and Gentlemen:

We have acted as special tax counsel to Government Development Bank for Puerto Rico in connection with the issuance of the above-captioned notes, dated the date of delivery thereof (the “Notes”). In such capacity we have examined Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended (the “Act”), creating Government Development Bank for Puerto Rico as a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico, and such other laws and such certified proceedings and other documents as we have deemed necessary to render this opinion, including the Indenture, dated February 17, 2006, by an between Government Development Bank for Puerto Rico and Banco Popular de Puerto Rico, as trustee, as amended, most recently by Supplement Number Eight to the Indenture, dated July , 2010 (collectively, the “Indenture”), a resolution adopted by the Executive Committee of the Board of Directors of Government Development Bank for Puerto Rico on July 23, 2010 (the “Resolution”), authorizing the issuance and delivery of the Notes, and other proofs submitted relative to the authorization, issuance and sale of the Notes. We also have examined one of the Notes as executed and authenticated.

The Notes are issued pursuant to the Act, the Indenture and the Resolution. The Notes will bear interest at such rates, will be payable on such dates, will mature in such principal amounts and will be subject to redemption prior to maturity all in the manner and in accordance with the terms and conditions of the Resolution.

Regarding questions of fact material to our opinion, we have relied on representations of Government Development Bank for Puerto Rico contained in the Resolution, and the certified proceedings and other certifications of officers of Government Development Bank for Puerto Rico and others furnished to us without undertaking to verify the same by independent investigation.

Based on the foregoing, we are of opinion that, under existing law:

Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, (i) interest on the Notes is not excluded from gross income for Federal income tax purposes and so will be fully subject to federal income taxation, and (ii) interest on the Notes is exempt from state, Commonwealth of Puerto Rico, and local income taxation.

Except as stated in the paragraph immediately above, we express no opinion as to any other Federal, state, Commonwealth of Puerto Rico or local tax consequences of the ownership or disposition of the Notes. Furthermore, we express no opinion as to any Federal, state, Commonwealth of Puerto Rico or local tax law

consequences with respect to the Notes, or the interest thereon, if any action is taken with respect to the Notes or the proceeds thereof upon the advice or approval of other counsel.

We express no opinion as to the accuracy or sufficiency of any financial or other information which has been or will be supplied to purchasers of the Notes.

The opinions expressed herein are for the benefit of the addressees only and may not be quoted, circulated, assigned or delivered to any other person or for any other purpose without our prior written consent. The opinions expressed herein are based on an analysis of existing laws, including regulations, rulings, official interpretations of law issued by the United States Internal Revenue Service, and court decisions on or prior to the date hereof. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application or official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

Greenberg Traurig, LLP

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