NEW ISSUE – BOOK-ENTRY ONLY	**RATINGS: MOODY'S: A3**
See "Book-Entry Only System and Global Clearance Procedures" under *The 2011 Series B Notes*	***See Ratings* S&P: BBB**

INTEREST ON THE 2011 SERIES B NOTES IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. For a more complete discussion of the tax aspects, including the treatment of Puerto Rico individuals, Puerto Rico corporations and non-U.S. owners, see Tax Matters herein.

$650,000,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
Senior Notes, 2011 Series B (Taxable)

Government Development Bank for Puerto Rico ("Government Development Bank") is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created by law in 1948. Government Development Bank acts as financial advisor to and fiscal agent for the Commonwealth and its instrumentalities, public corporations and municipalities, and provides interim and long-term financing to the Commonwealth and its instrumentalities, public corporations and municipalities, and to private parties for economic development. Government Development Bank's existence is perpetual, and pursuant to its enabling law, no amendment to such law or to any other law of the Commonwealth may impair any of its outstanding obligations or commitments.

The Senior Notes, 2011 Series B (Taxable) (the "2011 Series B Notes") are being issued by Government Development Bank pursuant to the provisions of the trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between Government Development Bank and Banco Popular de Puerto Rico, as trustee. Government Development Bank will use the proceeds from the sale of the 2011 Series B Notes for general corporate purposes including, but not limited to, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and redeeming all or a portion of certain notes previously issued under the Indenture.

The 2011 Series B Notes have the following characteristics:

- The 2011 Series B Notes will bear interest from their date of issuance at fixed rates as set forth on the inside cover page of this Official Statement.
- Interest on the 2011 Series B Notes will accrue from their date of issuance and will be payable semiannually in arrears on the first day of each May and November, commencing on November 1, 2011.
- The 2011 Series B Notes are subject to make-whole redemption at any time prior to maturity at the option of Government Development Bank. See "Optional Redemption" under *The 2011 Series B Notes.*
- The 2011 Series B Notes will be issued as fully registered notes without coupons in denominations of $5,000 principal amount and integral multiples of $5,000 in excess thereof and will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the 2011 Series B Notes. Purchasers of the 2011 Series B Notes will not receive physical delivery of the 2011 Series B Notes.

The inside cover page contains information on the maturities, interest rates, and prices of the 2011 Series B Notes.

The 2011 Series B Notes, the outstanding notes previously issued under the Indenture, and any additional notes that Government Development Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of Government Development Bank, ranking on parity with all other general, unsecured and unsubordinated obligations of Government Development Bank.

The 2011 Series B Notes do not constitute an obligation of the Commonwealth of Puerto Rico or any of its political subdivisions or public instrumentalities, other than Government Development 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 2011 Series B Notes.

The 2011 Series B Notes are offered for delivery when, as and if issued and accepted by the underwriters, subject to the approval of legality by Squire, Sanders & Dempsey (US) LLP, Bond Counsel, the opinion of McConnell Valdés LLC, Special Puerto Rico Tax Counsel, and certain other conditions. Certain legal matters will be passed upon for the underwriters by McConnell Valdés LLC, San Juan, Puerto Rico.

The 2011 Series B 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 May 26, 2011.

BofA Merrill Lynch

Citi	**J.P. Morgan**
Barclays Capital	**Goldman, Sachs & Co.**
Morgan Stanley	**RBC Capital Markets**

BBVAPR MSD FirstBank Puerto Rico Securities Popular Securities Santander Securities UBS Financial Services Incorporated of Puerto Rico

May 12, 2011

$650,000,000
Government Development Bank for Puerto Rico
Senior Notes, 2011 Series B (Taxable)

Maturity Date May 1,	Amount	Interest Rate	Price	CUSIP*
2014	$ 250,000,000	3.670%	100.00%	745177EW1
2016	$ 400,000,000	4.704%	100.00%	745177EX9

* Government Development Bank is not responsible for the use of CUSIP numbers, nor is any representation made as to their correctness. They are included solely for the convenience of the readers of this Official Statement.

INFORMATION CONCERNING OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS OUTSIDE THE UNITED STATES

France

Each of the underwriters and Government Development Bank has represented and agreed that:

It has not offered or sold and will not offer or sell, directly or indirectly, 2011 Series B Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Official Statement or any other offering material relating to the 2011 Series B Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), all as defined in, and in accordance with, Articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

This Official Statement prepared in connection with the 2011 Series B Notes has not been submitted to the clearance procedures of the *Autorité des marchés financiers*.

Germany

Each of the underwriters has represented and agreed that, in Germany, the 2011 Series B Notes will be offered only to qualified investors within the meaning of § 2 No. 6 of the German Securities Prospectus Act (Wertpapierprospektgesetz) or to investors who acquire the 2011 Series B Notes for a total consideration of at least $100,000 (U.S. dollars) per investor for each separate offer, or otherwise in compliance with German law and that in making any such offers any applicable German laws or regulations will be complied with.

Hong Kong

Each underwriter has represented and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any of the 2011 Series B Notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in this Official Statement being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the 2011 Series B Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the 2011 Series B Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Kazakhstan

Each underwriter has agreed that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy or sell the 2011 Series B Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Republic of Kazakhstan, except in compliance with the applicable securities laws of the Republic of Kazakhstan.

Norway

This Official Statement has not been approved by, or registered with, any Norwegian securities regulators pursuant to the Norwegian Securities Trading Act of 29 June 2007. Accordingly, neither this Official Statement nor any other offering material relating to the offering of the 2011 Series B Notes constitutes, or shall be deemed to constitute, an offer to the public in Norway within the meaning of the Norwegian Securities Trading Act of 2007. The 2011 Series B Notes may not be offered or sold, directly or indirectly, in Norway except:

(a) in respect of an offer of the 2011 Series B Notes addressed to investors subject to a minimum purchase of the 2011 Series B Notes for a total consideration of not less than €50,000 per investor;

(b) to "professional investors" as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876, being:

(i) legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in the 2011 Series B Notes;

(ii) any legal entity which is registered as a professional investor with the Norwegian Financial Supervisory Authority (No. Finanstilsynet) and which has two or more of: (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(iii) any natural person which is registered as a professional investor with the Oslo Stock Exchange (No. Oslo Børs) and which has two or more of: (1) an average execution of at least 10 transactions in securities of significant volume per quarter for the last four quarters; (2) a portfolio of securities with a market value of at least €500,000; (3) worked or works, for at least one year, within the financial markets in a position which presupposes knowledge of investing in securities;

(c) to fewer than 100 natural or legal persons (other than "professional investors" as defined in the Norwegian Securities Regulation of 29 June 2007 no. 876), subject to obtaining the prior consent of the underwriters for any such offer; or

(d) in any other circumstances provided that no such offer of the 2011 Series B Notes shall result in a requirement for the registration, or the publication by Government Development Bank or any underwriter, of a prospectus pursuant to the Norwegian Securities Trading Act of 29 June 2007.

Singapore

Each underwriter acknowledges that this Official Statement has not been registered as a prospectus with the Monetary Authority of Singapore, and the 2011 Series B Notes will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly, each underwriter represents and agrees that it has not offered or sold any 2011 Series B Notes or caused the 2011 Series B Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any 2011 Series B Notes or cause the 2011 Series B Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Official Statement or any document or material in connection with the offer or sale, or invitation for subscription or purchase, of any 2011 Series B Notes, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act, or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased 2011 Series B Notes, namely a person who is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the 2011 Series B Notes under Section 275 of the Securities and Futures Act except:

(i) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law; or

(iv) pursuant to Section 276(7) of the Securities and Futures Act.

Sweden

Each underwriter has represented and agreed, that it will not, directly or indirectly, offer for subscription or purchase or issue invitations to subscribe for or buy the 2011 Series B Notes or distribute any draft or definitive document in relation to any such offer, invitation or sale in the Kingdom of Sweden except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (Sw. Lag (1991:980) om handel med finansiella instrument).

Switzerland

This document is not intended to constitute an offer or solicitation to purchase or invest in the 2011 Series B Notes described herein. The 2011 Series B Notes may not be publicly offered, sold or advertised, directly or indirectly, in or from Switzerland. Neither this Official Statement nor any other offering or marketing material relating to the 2011 Series B Notes constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Federal Code of Obligations or a listing prospectus within the meaning of the listing rules of SIX Swiss Exchange Ltd or any other regulated trading facility, and neither this Official Statement nor any other offering or marketing material relating to the 2011 Series B Notes may be publicly distributed or otherwise made publicly available in Switzerland.

United Kingdom

Each underwriter has represented and agreed that:

(a) in relation to any 2011 Series B Notes having a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any 2011 Series B Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the 2011 Series B Notes would otherwise constitute a contravention of section 19 of the Financial Services and Markets Act 2000 ("FSMA") by Government Development Bank;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any 2011 Series B Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such 2011 Series B Notes in, from or otherwise involving the United Kingdom.

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In connection with this offering, the underwriters may effect transactions which stabilize or maintain the market prices of the 2011 Series B Notes and Government Development Bank's other 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 Government Development 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 Government Development 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 Government Development 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 Government Development 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 Government Development 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 Government Development 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 Government Development 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 Government Development 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 2011 Series B 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 Government Development 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 Government Development 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 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 2011 Series B Notes. A purchaser should read the entire Official Statement, including the documents incorporated herein by reference.

Government Development Bank

Government Development Bank for Puerto Rico ("Government Development Bank") is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico"). Government Development Bank was created by law in 1948 to aid the Commonwealth in the performance of its fiscal duties and more effectively carry out its governmental responsibility to develop the economy of Puerto Rico, particularly with respect to its industrialization. Government Development Bank's existence is perpetual, and pursuant to its enabling law, no amendment to such law or any other law of the Commonwealth may impair any of its outstanding obligations or commitments.

The principal functions of Government Development Bank are:

- to act as fiscal agent, paying agent and financial advisor to the Commonwealth and its instrumentalities, public corporations and municipalities, and to the Governor, the Council of Secretaries, and the Secretary of Treasury of Puerto Rico;
- to provide interim and long-term financing to the Commonwealth and its instrumentalities, public corporations and municipalities, and to private parties for economic development; and
- to act as depositary or trustee of funds for the Commonwealth and its instrumentalities, public corporations and municipalities.

In its role as fiscal agent and financial advisor, Government Development Bank acts as advisor to the Commonwealth and its instrumentalities in connection with all their borrowings, and all such borrowings are subject to its prior approval. It also has the power, among other things, to acquire property for its corporate purposes; to acquire any property in the settlement or reduction of debts previously contracted, where such acquisition is necessary to minimize or avoid loss in connection therewith; to invest in obligations of the United States, the Commonwealth, and their instrumentalities and political subdivisions, or obligations of any domestic or foreign, public or private, corporate entity classified in one of the three highest rating categories by a nationally recognized rating agency; to borrow money and contract debts for its corporate purposes; to establish branches, offices or agencies for the transaction of its business; to purchase, hold, lease, mortgage and convey real property; to sue and be sued; and to create subsidiary or affiliate corporations.

Since loans to the Commonwealth and its instrumentalities represent a significant portion of Government Development Bank's assets, 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 current fiscal situation. The Commonwealth's fiscal situation may have an adverse impact on Government Development Bank's financial condition, possibly limiting its access to the capital markets and other funding sources. See "Fiscal situation and condition of the Commonwealth, its public corporations and municipalities may negatively affect the financial condition and liquidity of Government Development Bank" under *Investment Considerations* herein.

As of June 30, 2010, Government Development Bank had consolidated total assets of $14.0 billion, including $7.0 billion of loans receivable, principally from the Commonwealth and its instrumentalities, and consolidated net assets of $2.5 billion. For the year ended June 30, 2010, Government Development Bank's consolidated operating revenues were $549.3 million and the change in net assets was $93.3 million. As of December 31, 2010, Government Development Bank had consolidated total assets of $14.2 billion, including $7.9 billion of loans receivable, principally from the Commonwealth and its instrumentalities, and consolidated net assets of $2.6 billion. For the six months ended December 31, 2010, Government Development Bank's consolidated operating revenues were $293.6 million and the change in net assets was $37.2 million.

As of December 31, 2010, approximately $1.6 billion of Government Development Bank's consolidated total assets of $14.2 billion were held by Government Development Bank's subsidiaries and are, therefore, unavailable for payment of debt service on the 2011 Series B Notes.

Details of the 2011 Series B Notes

Offering...................................... Government Development Bank for Puerto Rico Senior Notes, 2011 Series B (Taxable) (the "2011 Series B Notes").

Issuer.. Government Development Bank for Puerto Rico.

Principal Amount....................... $650,000,000.00

Interest .... The 2011 Series B Notes will bear interest from their date of issuance at per annum fixed rates as set forth on the inside cover page of this Official Statement. Interest on the 2011 Series B Notes will be payable semiannually in arrears on the first day of each May and November, commencing on November 1, 2011.

Use of Proceeds.......................... Government Development Bank will use the proceeds from the sale of the 2011 Series B Notes for general corporate purposes, including, but not limited to, increasing its investment portfolio, making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and redeeming all or a portion of its outstanding Notes (as defined below). See *Use of Proceeds* for a description of the Notes to be redeemed by Government Development Bank with the proceeds of the 2011 Series B Notes.

Optional Redemption................. The 2011 Series B Notes are subject to redemption at any time prior to maturity at the option of Government Development Bank, either in whole or in part (and if in part, in such order of maturity as Government Development Bank shall direct), subject to at least 30 days prior notice, at a price equal to the greater of: (a) the principal amount of the 2011 Series B Notes to be redeemed, or (b) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2011 Series B Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2011 Series B Notes are to be redeemed, discounted to the date on which such 2011 Series B Notes are to be redeemed on a semiannual basis, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined hereinafter) plus 45 basis points; plus, in each case, accrued interest on the 2011 Series B Notes to be redeemed to the redemption date.

Note Program .... The 2011 Series B Notes are being issued pursuant to the provisions of the trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between Government Development 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 Government Development Bank on May 12, 2011 (the "Resolution"). Under the Indenture, Government Development 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 Government Development Bank under the Indenture.

Unsecured Notes .... The 2011 Series B Notes, the outstanding notes previously issued under the Indenture, and any additional notes that Government Development Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of Government Development Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of Government Development Bank for borrowed money and with unsecured and unsubordinated Government Development 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, Government Development Bank may issue additional debt securities and may otherwise incur additional indebtedness without restriction.

Availability of Assets of Government Development Bank's Subsidiaries.................... Because the 2011 Series B Notes are issued by Government Development Bank and are not guaranteed by Government Development Bank's subsidiaries, holders of the 2011 Series B Notes will not have recourse against Government Development Bank's subsidiaries.

Absence of Public Market.......... The 2011 Series B Notes are a new issue of securities. There is no assurance that a secondary market for the 2011 Series B Notes will develop or, if it does develop, that it will provide the holders of the 2011 Series B Notes with liquidity for their investment or that it will continue for the life of the 2011 Series B Notes.

Governing Law .... All rights and obligations under the 2011 Series B Notes will be governed by and construed in accordance with the laws of the Commonwealth.

Ratings .... The 2011 Series B Notes have received a rating of "BBB" by Standard & Poor's Ratings Services ("S&P") and of "A3" by Moody's Investor

Services ("Moody's"). For a description of the ratings on the 2011 Series B Notes, see *Ratings* herein.

Book-Entry Form .... The 2011 Series B Notes will be issued in book-entry form through the book-entry only system of The Depository Trust Company. Purchasers of the 2011 Series B Notes will not receive definitive notes.

Tax Matters .... Interest on the 2011 Series B Notes is not excluded from gross income for federal income tax purposes. For a more complete discussion of the tax aspects, including the treatment of Puerto Rico individuals, Puerto Rico corporations and non-U.S. owners, see *Tax Matters* herein.

FINANCIAL HIGHLIGHTS OF GOVERNMENT DEVELOPMENT BANK AND ITS SUBSIDIARIES

	As of and for the six months ended December 31,		As of and for the year ended June 30,		
	2010	2009	2010	2009	2008
			(in thousands)		
Financial Condition Trends Government Wide[1]					
Assets					
Total invested assets	$ 5,744,715	$ 6,022,421	$ 6,594,502	$ 6,850,319	$ 6,338,475
Loans receivable, net	7,920,087	7,126,620	6,966,384	6,685,404	5,463,419
Total assets	14,213,204	13,635,783	14,048,567	14,039,155	12,315,995
Liabilities					
Deposits and commercial paper	5,085,547	6,194,709	6,149,198	7,554,807	7,004,034
Other borrowed funds	6,379,333	4,868,321	5,181,652	3,933,523	2,836,049
Total liabilities	11,632,021	11,150,041	11,504,606	11,588,473	9,957,272
Net assets	2,581,183	2,485,742	2,543,961	2,450,682	2,358,723
Income and Expense Trends Government Wide[1]					
Total investment income and interest income on loans	277,932	242,056	512,721	439,193	586,350
Total interest expense	223,684	177,093	367,096	364,145	438,390
Net investment income and interest income on loans	54,248	64,963	145,625	75,048	147,960
Provision for loan losses	1,365	1,165	13,340	46,374	1,847
Non-interest income and other items	177,623	98,844	261,872	157,161	183,200
Non-interest expense and other items	190,681	126,423	346,644	244,640	237,446
Contribution from other	555	-	50,110	154,222	-
Contributions to others	3,158	1,159	4,344	3,458	4,384
Change in net assets	37,222	35,060	93,279	91,959	87,483
Profitability and Capitalization Ratios Enterprise Funds[2]					
Return on total average assets	0.34%	1.07%	0.88%	1.11%	0.81%
Change in net assets to average net assets	1.90%	6.03%	4.98%	6.22%	4.40%
Average net assets to average total assets	18.14%	17.77%	17.71%	17.89%	18.47%
Net assets to total assets	18.12%	18.29%	18.16%	17.26%	18.60%
Interest rate spread	0.00%	0.25%	0.35%	0.19%	0.69%
Net interest margin	0.61%	0.71%	0.83%	0.69%	1.36%

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

(2) 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.

$650,000,000
Government Development Bank for Puerto Rico
Senior Notes, 2011 Series B (Taxable)

INTRODUCTORY STATEMENT

This Official Statement of Government Development Bank for Puerto Rico ("Government Development 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, 2011 Series B (Taxable) (the "2011 Series B Notes"). Government Development Bank is a public corporation and an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico").

The 2011 Series B Notes are being issued pursuant to the provisions of the trust indenture, dated February 17, 2006, as amended or supplemented (the "Indenture"), between Government Development 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 Government Development Bank on May 12, 2011 (the "Resolution"). Under the provisions of the Indenture, Government Development Bank may issue additional notes on a parity with any notes issued under the Indenture. The 2011 Series B Notes, the outstanding notes previously issued under the Indenture, and any additional notes that Government Development Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of Government Development Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of Government Development Bank for borrowed money and with unsecured and unsubordinated Government Development Bank guarantees of obligations of others for borrowed money now or hereafter outstanding.

The table below lists the other series of Notes that have been previously issued by Government Development Bank under the Indenture and that are currently outstanding, including the original principal amount of such Notes and the outstanding principal amount thereof as of March 31, 2011:

Series	Initial Principal Amount	Outstanding Principal Amount as of March 31, 2011
2006 Series B	$ 740,000,000	$ 365,360,000
2006 Series C (AMT)	81,960,000	81,960,000
2009 Series C	1,013,200,000	959,773,000
2009 Series D	342,876,000	301,158,000
2010 Series A	1,448,741,000	1,448,741,000
2010 Series B	151,259,000	151,259,000
2010 Series C	1,086,478,000	1,086,478,000
2010 Series D	96,411,000	96,411,000
2011 Series A	70,000,000	70,000,000
	TOTAL:	$ 4,561,140,000

The 2011 Series B Notes are not an obligation of the Commonwealth or any of its political subdivisions or instrumentalities, other than Government Development Bank, and neither the Commonwealth nor any of its political subdivisions or instrumentalities, other than Government Development Bank, is required to pay the Notes.

On December 19, 1985, Government Development Bank issued its Adjustable Refunding Bonds, Series 1985 (the "Bonds"). The Bonds were issued and are governed by the provisions of a trust agreement dated as of December 1, 1985, as amended and supplemented. On December 30, 2009, the

Bonds were converted from a variable interest rate to a fixed rate. As of March 31, 2011, the Bonds' original aggregate principal amount of $267 million is outstanding.

Since one of Government Development 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 Government Development Bank's assets. Certain 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. Government Development Bank may also be called upon to provide financial assistance to instrumentalities of the Commonwealth at any time. Government Development Bank is not required by law, however, to provide such assistance, and it is Government Development Bank's general policy not to provide financing to instrumentalities of the Commonwealth (other than the central government) unless Government Development Bank reasonably believes that the borrowing instrumentality will have sufficient resources, including the ability to issue bonds or notes or otherwise borrow funds, to repay such loans. Government Development Bank evaluates all loans to the public sector on a case by case basis. Each request for financing by a government instrumentality is reviewed in terms of the legal authority of such entity, the purpose and amount of the financing being requested, the source of repayment for the financing, the compliance by such instrumentality with other financial and legal requirements, and the additional pledge of collateral available for payment. All loans are subject to final approval by the Board of Directors of Government Development Bank. For a discussion of the level and types of loans provided by Government Development Bank to the Commonwealth and its instrumentalities, see "Loans to the Commonwealth, its Public Corporations and Municipalities" under *Government Development Bank* herein.

This Official Statement includes descriptions of Government Development Bank as well as summaries of the terms of the 2011 Series B 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 2011 Series B Notes and from the Trustee thereafter. All references to the 2011 Series B 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

Because of the role played by Government Development 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 Government Development Bank, this Official Statement includes a discussion of recent developments relating to the Commonwealth's current fiscal situation. For the same reason, this Official Statement incorporates by reference the Commonwealth's Financial Information and Operating Data Report, dated April 30, 2011 (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 Government Development 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 budget for fiscal year 2011, the proposed budget for fiscal year 2012, and the debt of the Commonwealth's public sector. Some of the information appearing in the Commonwealth Report has been updated and appears below under the caption *Recent Developments Relating to the Commonwealth*.

Purchasers of the 2011 Series B 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.

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 also 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 Government Development 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 2011 Series B 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.

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

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

RECENT DEVELOPMENTS RELATING TO THE COMMONWEALTH

Loans by Government Development Bank to the Commonwealth and its instrumentalities represent a significant portion of Government Development Bank's assets. As such, the financial condition of the Commonwealth and its instrumentalities may have an effect on the financial condition and results of operations of Government Development Bank. Certain of the information appearing below is discussed in greater detail in the Commonwealth Report and should be read in conjunction therewith.

Commonwealth's Structural Imbalance

Since 2000, the Commonwealth has experienced a structural imbalance between recurring government revenues and total expenditures. The structural imbalance reached its highest level in fiscal year 2009, when the deficit was $3.306 billion, consisting of the difference between total recurring revenues of $7.583 billion and total expenditures of $10.890 billion. The current administration has implemented certain expense reduction measures that, together with various temporary and permanent revenue raising measures, have allowed the Commonwealth to reduce the deficit. For fiscal year 2010, total expenditures of $10.369 billion exceeded total revenues (excluding other financing sources) by $2.775 billion; excluding the debt service amounts that were refinanced, total expenditures were approximately $9.691 billion and exceeded total revenues (excluding other financing sources) by $2.098 billion. It is estimated that the deficit for fiscal year 2011 will be approximately $1.0 billion. See

"Overview of Economic and Fiscal Condition — Fiscal Condition" under INTRODUCTION in the Commonwealth Report.

Fiscal Year 2012 Government Budget

On April 12, 2011, the Governor of Puerto Rico, Luis G. Fortuño (the "Governor"), presented the proposed budget for fiscal year 2012 to the Legislature of Puerto Rico. The proposed budget provides for total resources of $16.2 billion and total General Fund revenues of $9.3 billion. The budgeted General Fund revenue of $9.3 billion includes base revenues of $7.1 billion, $1.6 billion from tax enforcement and compliance measures and $610.0 million in additional revenues from proceeds of bond issues made by the Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish-language acronym), which proceeds are held by Government Development Bank in an account referred to as the "Stabilization Fund".

The principal changes in budgeted General Fund revenues compared to the fiscal year 2011 budget are accounted mainly by the projected collections from the new temporary excise tax under Act No. 154 of October 25, 2010, as amended ("Act No. 154") (up $969.0 billion), sales and use taxes (up $125.0 million), retained non-resident income taxes (up $28.5 million), alcoholic beverage (up $9.0 million), and projected decreases in excise taxes on motor vehicles and accessories (down $8.0 million), corporate income tax (down $51.0 million), federal excise taxes on offshore shipments (down $66.0 million), property taxes (down $162 million) and personal income taxes (down $239.0 million).

The fiscal year 2012 proposed budget provides for total expenditures of $9.3 billion, consisting of General Fund expenditures of $8.7 billion and additional expenditures of $610 million that are expected to be covered from proceeds of COFINA deposited in the Stabilization Fund. The budgeted total expenditures for fiscal year 2012 are $9.3 billion, or 1.2%, higher than budgeted total expenditures of $9.2 billion for fiscal year 2011, and $910.0 million, or 8.9%, lower than total expenditures of $10.2 billion for fiscal year 2010.

Budgeted expenses and capital improvements for the central government of all budgetary funds total $15.9 billion, a decrease of $142.9 million from fiscal year 2011 budgeted appropriations. The principal changes in General Fund expenditures by program in fiscal year 2012 compared to the fiscal year 2011 budget are mainly due to increases in education (up $148.3 million), economic development (up $117.6 million), special pension contributions (up $85.8 million), contributions to municipalities (up $25.9 million), public safety and protection up $79.0 million), and decreases in general obligation bonds debt service (down $21.5 million), welfare (down $24.0 million), other debt service appropriations (down $36.9 million) and health (down $212.7 million).

Preliminary Results for the First Nine Months of Fiscal Year 2011

Preliminary General Fund net revenues for the first nine months of fiscal year 2011 (from July 1, 2010 to March 31, 2011) were $5.1 billion, a decrease of $107 million, or 2.1%, from $5.2 billion of net revenues for the same period in the prior fiscal year, and a decrease of $6 million from the original estimate of net revenues made for budget purposes prior to the design and implementation of the tax reform described below.

The decline in General Fund net revenues is mainly due to a decrease of $160 million, $93 million, $19 million and $100 million in collections from income tax on individuals, income tax on corporations, withholding on non-residents and other non-tax revenues, respectively. These declines were partially offset by the new temporary excise tax and the expansion of the taxation of certain foreign persons adopted in October 2010 as part of the tax reform. The decrease in individual and corporate income taxes is due to the tax relief provided to individual and corporate taxpayers as part of the tax reform and to current economic conditions.

The Treasury Department also reported that preliminary sales and use tax collections for the first nine months of fiscal year 2011 were $847.3 million, an increase of $26.9 million, or 3.3%, from the sales and use tax collections for the same period in the prior fiscal year. Sales and use tax preliminary collections for March 2011 were $89.2 million, an increase of 8.1% compared to March 2010.

The government of Puerto Rico (the "Government") expects that the decrease in General Fund net revenues as a result of the implementation of the tax reform will be offset by the temporary excise tax imposed on certain foreign persons by Act No. 154. The first three monthly excise tax payments due in February, March and April 2011 amounted to approximately $108.7 million, $125.8 million and $170.0 million, respectively, which is consistent with the Government's projection of collections from the excise tax.

For more information on the tax reform and Act No. 154, see "Tax Reform" below and "Overview of Economic and Fiscal Condition — Fiscal Condition" under INTRODUCTION in the Commonwealth Report.

Tax Reform

In February 2010, the Governor named a committee to review the Commonwealth's income tax system and propose a comprehensive tax reform directed at promoting economic growth and job creation within the framework of preserving the administration's path towards achieving fiscal stability. The committee presented its findings to the Governor and, on October 25, 2010, the Governor announced that he was submitting to the Legislative Assembly various bills in order to implement the tax reform. The tax reform is intended to be revenue positive.

The tax reform consists of two phases focused on providing tax relief to individuals and corporations, promoting economic development and job creation, simplifying the tax system and reducing tax evasion through enhanced tax compliance measures. The first phase, enacted as Act No. 171 of November 15, 2010, is expected to provide individual and corporate taxpayers with aggregate savings of $309 million for taxable year 2010. The second phase, enacted as Act No. 1 of January 31, 2011 ("Act No. 1"), is projected to provide individual and corporate taxpayers aggregate annual average savings of $1.2 billion for the next six taxable years, commencing in taxable year 2011. Consistent with the objective of maintaining the path towards fiscal stability, the tax relief provisions applicable to individuals and corporations for taxable years 2014 through 2016 become effective only if (i) the Puerto Rico Office of Management and Budget ("OMB") certifies that the administration's expense control target has been met, (ii) the Treasury Department certifies that the General Fund revenue target has been met and (iii) the Planning Board certifies a year-over-year target increase in gross domestic product.

As part of structuring the tax reform, the Government utilized a group of economic consultants to project its impact on tax revenues through the use of dynamic economic models adjusted to the Commonwealth's specific economic conditions. The Government also conducted its own internal analyses of such impact. Based on these analyses, the Government expects that the reduction in income tax revenues resulting from the implementation of the tax reform should be fully offset by the additional revenues produced by (i) enhanced tax compliance measures, (ii) the elimination of certain incentives and tax credits, (iii) a new temporary excise tax imposed on a controlled group member's acquisition from another group member of certain personal property manufactured or produced in Puerto Rico and certain services performed in Puerto Rico (at a declining rate from 4% for 2011 to 1% for 2016), and (iv) an expansion of taxation rules that characterize certain income of non-resident corporations, partnerships and individuals as effectively connected with the conduct of a trade or business in Puerto Rico and therefore subject to Puerto Rico income tax. The temporary excise tax and the expansion of the taxation of certain foreign persons were adopted by Act No. 154. In circumstances in which the temporary excise tax applies, the expansion of the taxation of nonresident individuals, foreign corporations and foreign partnerships does not apply. The other revenue enhancement measures, which are part of the second phase of the tax reform, are included in Act No. 1. On December 29, 2010, the Treasury Department adopted regulations that provide certain tax credits against the temporary excise tax that lessen its impact on affected taxpayers subject to the temporary excise tax. These regulations became effective on January 1, 2011. The regulations address implementation and interpretation issues and include provisions regarding certain applicable credits against the tax subject to maintaining a baseline employment and other conditions. The Government estimates that this excise tax will affect foreign corporations or partnerships that are principally engaged in the manufacturing of pharmaceuticals and electronics. The Government expects to raise approximately $1.4 billion from the excise tax during the first year of implementation of Act No. 154 and $5.6 billion for the six-year period that the excise tax is in place.

The first three monthly excise tax payments were due in February, March and April 2011, respectively. The Treasury Department recently announced that preliminary collections for the first, second and third excise tax payments were $108.7 million, $125.8 million and $170.0 million, respectively. These amounts are consistent with the Government's projection of collections from the excise tax.

Based on its analysis, the Government believes that the revenue projections from the taxes imposed by Act No. 154 are reasonable. However, since such taxes only became effective on January 1, 2011, there can be no assurance that the revenues therefrom, together with the other revenue enhancement measures included in the tax reform, will be sufficient to fully offset the reduction in income tax revenues expected from other aspects of the tax reform.

In connection with the expansion of the taxation of foreign persons by Act No. 154, the Government obtained a legal opinion regarding the creditability of the excise tax for U.S. federal income tax purposes. The opinion concludes that this excise tax should be creditable against U.S. federal income tax. That conclusion was based in part upon a determination that the expansion of the taxation of foreign persons and the imposition of the excise tax more likely than not satisfy the constitutional requirements of due process and the Commerce Clause of the United States Constitution, for reasons discussed therein. Therefore, it is the position of the Government that the excise tax is a tax imposed in substitution of the generally imposed income tax and that, as such, under Section 903 of the United States Internal Revenue Code of 1986, as amended, U.S. taxpayers can claim a foreign tax credit for amounts paid.

On March 30, 2011, the United States Internal Revenue Service (the "IRS") issued Notice 2011-29 addressing the creditability of the new excise tax imposed by Act No. 154. Notice 2011-29 provides that the provisions of the new Puerto Rico excise tax are novel and the determination of its creditability requires the resolution of a number of legal and factual issues. Pending the resolution of those issues, the IRS will not challenge a taxpayer's position that the excise tax is a tax in lieu of an income tax under Section 903. The IRS also provided that any change in the foregoing tax credit treatment of the excise tax after resolution of the pending issues will be prospective and will apply to excise tax paid or accrued after the date that further guidance is issued.

Act No. 154 has not been challenged in court. Consequently, no court has passed on the constitutionality of Act No. 154. There can be no assurance that its constitutionality will not be challenged and that, if challenged, the courts will uphold Act No. 154. To the extent a court determines that the imposition of the excise tax or the expansion of the income tax or both are unconstitutional, the Government's revenues may be materially adversely affected.

For a summary of the principal provisions of the tax reform, the expansion of the income tax source rules to certain nonresident alien individuals, foreign corporations and foreign partnerships, and the new temporary excise tax, see "Major Sources of General Fund Revenues — Tax Reform" and "Major Sources of General Fund Revenues — Income Taxes," respectively, under PUERTO RICO TAXES, OTHER REVENUES AND EXPENDITURES in the Commonwealth Report.

Financial Condition of Retirement Systems

One of the challenges every administration has faced during the past 20 years is how to address the growing unfunded pension benefit obligations and funding shortfalls of the three Government retirement systems (the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System) that are funded principally with Government appropriations. As of June 30, 2010, the date of the latest actuarial valuations of the retirement systems, the unfunded actuarial accrued liability (including basic and system administered benefits) for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System was $17.8 billion, $7.1 billion and $283 million, respectively, and the funded ratios were 8.5%, 23.9% and 16.4%, respectively.

Based on current employer and member contributions to the retirement systems, the unfunded actuarial accrued liability will continue to increase significantly, with a corresponding decrease in the funded ratio, since the annual contributions are not sufficient to fund pension benefits, and thus, are also insufficient to amortize the unfunded actuarial accrued liability. Because annual benefit payments and administrative expenses of the retirement systems have been significantly larger than annual employer and member contributions, the retirement systems have been forced to use investment income, borrowings and sale of investment portfolio assets to cover funding shortfalls. The funding shortfall (basic system benefits, administrative expenses and debt service in excess of contributions) for fiscal year 2011 for the Employees Retirement System, the Teachers Retirement System and the Judiciary Retirement System is expected to be approximately $749 million, $274 million and $7.8 million, respectively. As a result, the assets of the retirement systems are expected to continue to decline.

Based on the assumptions used in the latest preliminary actuarial valuations, including the expected continued funding shortfalls: (i) the Employees Retirement System, the largest of the three retirement systems, would deplete its net assets (total assets less liabilities, including the principal amount of certain pension obligation bonds) by fiscal year 2014 and its gross assets by fiscal year 2019; (ii) the Teachers Retirement System would deplete its net and gross assets by fiscal year 2020; and (iii) the Judiciary Retirement System would deplete its net and gross assets by fiscal year 2018. The estimated years for depletion of the assets could vary depending on how actual results differ from the assumptions used in the actuarial valuations, as well as based on any future changes to the contribution and benefits structures of the retirement systems.

Since the Commonwealth and other participating employers are ultimately responsible for any funding deficiency in the three retirement systems, the depletion of the assets available to cover retirement benefits will require the Commonwealth and other participating employers to cover annual funding deficiencies. It is estimated that the Commonwealth would be responsible for approximately 74% of the combined annual funding deficiency of the three retirement systems, with the balance being the responsibility of the municipalities and participating public corporations.

The Commonwealth also provides non-pension post-employment benefits that consist of a medical insurance plan contribution. These benefits, which amounted to $114.2 million for fiscal year 2010, are funded on a pay-as-you-go basis from the General Fund and are valued using actuarial principles similar to the way that pension benefits are calculated. Based on the latest actuarial valuations, as of June 30, 2010, the aggregate unfunded actuarial accrued liability of these benefits for the three retirement systems was $2.3 billion.

In order to address the growing unfunded pension and non-pension benefit obligations and funding shortfalls of the three Government retirement systems, in February 2010, the Governor established a special commission to make recommendations for improving the financial solvency of the retirement systems. The special commission submitted a report to the Governor on October 21, 2010. The individual recommendations made by the members of the special commission, which included increasing the amount of the employer and employee annual contributions and changing the benefits structure, are being analyzed with the intent of presenting a comprehensive, consensus legislation package during 2011. The Secretary of Labor, who chaired the special commission, is evaluating, in particular, proposing additional employer contributions to improve the funding ratio, the impact of special laws that have provided additional retirement benefits, and the impact on the system's cash flow of previously approved increases in the amount that members may borrow from the systems under various loan programs.

Because of the multi-year fiscal imbalances mentioned above, the Commonwealth is currently unable to make the actuarially recommended contributions to the retirement systems. If the Commonwealth fails to take action in the short-term to address the retirement systems' funding deficiency, the continued use of investment assets to pay benefits as a result of funding shortfalls and the resulting depletion of assets could adversely affect the ability of the retirement systems to meet the rates of return assumed in the actuarial valuations, which could in turn result in an earlier depletion of the retirement systems' assets and a significant increase in the unfunded actuarial accrued liability. Ultimately, since the Commonwealth's General Fund is required to cover a significant amount of the funding deficiency, the Commonwealth would have difficulty funding the annual required contributions unless it implements significant reforms to the retirement systems, obtains additional revenues, or takes other budgetary measures. For more information regarding the retirement systems, see RETIREMENT SYSTEMS in the Commonwealth Report.

Reduction in Expenditures through Early Retirement

Act No. 70, approved by the Legislative Assembly on July 2, 2010 ("Act No. 70"), is designed to reduce Government expenditures by providing an early retirement window for eligible employees (who opted to retire by January 14, 2011) under a formula that results in a positive actuarial impact for the Government's retirement systems. Employees that elected to participate in the program will receive retirement benefits based on a lower salary and a lower pension rate than what they would otherwise have been entitled to if they had continued in their employment until full vesting, but at a higher rate than what they would be entitled to based on their current years of service. Approximately 2,398 employees opted for early retirement under Act No. 70.

Local Incentives for Rum Producers

Under current federal law, federal excise taxes imposed and collected by the United States on shipments of rum from Puerto Rico to the United States mainland are returned ("covered-over") each month to the Commonwealth. Under the cover-over program, originally established by Congress in 1917, the Commonwealth receives a refund of $10.50 from the $13.50 that is imposed upon the distilled spirit tax collected per proof gallon. Since 1999, however, the U.S. Congress has enacted special supplementary legislation increasing the amount refunded to the Commonwealth to $13.25 per proof gallon. For fiscal year 2010, the total excise taxes on rum shipments returned to the Commonwealth was $352.3 million.

In June 2008, the government of the United States Virgin Islands (the "USVI") signed an agreement with Diageo USVI Inc. ("Diageo") for the construction and operation of a new rum distillery in St Croix, USVI, that will manufacture Captain Morgan branded products to be sold in the United States beginning in January 2012. Currently, all rum used in Captain Morgan products sold in the United States is procured through a supply contract with Destilería Serrallés, Inc. ("Serrallés") in Puerto Rico which expires on December 31, 2011. The Government estimates that the exports of Captain Morgan rum produced in Puerto Rico by Serrallés during calendar year 2009 were 9,403,224 proof gallons. These rum exports of Captain Morgan resulted in an estimated $124.5 million in excise tax on rum shipments returned by the United States to Puerto Rico during fiscal year 2009. As a result of the termination of the contract between Serrallés and Diageo, it is expected that after 2011, the income received by the Commonwealth from the federal excise tax on rum shipments will decrease unless Serrallés is able to find other clients in the United States for the volume of bulk rum previously purchased by Diageo for its Captain Morgan products.

In an effort to maintain the local rum industry, as a result of the threat posed by the USVI's agreement with Diageo, and preserve or increase the amount of federal excise taxes on rum shipments returned to the Commonwealth under the cover-over program, the Governor signed Act No. 178 of December 1, 2010 ("Act No. 178"), which increases from 10% to 25% the portion of the monies from the federal excise tax that the Commonwealth may invest to provide incentives to and promote the Puerto Rican rum industry. The law also authorizes the Governor to increase this percentage up to 46% after December 31, 2011, through an Executive Order. In order to promote the Puerto Rican rum industry in general, the amount received from such refund will be transferred to a special account of the General Fund, which may be used for marketing, production and infrastructure investment incentives. Effective January 1, 2011, Act No. 1 replaced Act No. 178 and contains identical provisions.

The Government is in discussions with certain rum producers to provide them a series of subsidies and incentives, as permitted under Act No. 1, in order to promote the production of rum in Puerto Rico. If such discussions culminate in definitive agreements, this would allow such companies to benefit from the cover-over program rebate and would promote and encourage the export of rum produced in Puerto Rico.

Recent Rating Actions

On March 7, 2011, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), raised its rating on the Commonwealth general obligation bonds to "BBB" with a stable outlook from "BBB–" with a positive outlook and assigned such rating to the bonds issued by the Commonwealth. In taking this rating action, S&P stated the upgrade reflects the Commonwealth's recent revenue performance and continued efforts to achieve fiscal and budgetary balance. S&P noted, however, that other medium-term budget pressures, such as the Commonwealth's retirement benefit obligations, remain a limiting credit factor, S&P's stable outlook is based on the Commonwealth's recent implementation of significant expenditure controls and revenue enhancement measures that could help restore balance within the next two years. S&P also stated that it would raise the rating if over the upcoming two years, in conjunction with an improvement in the Commonwealth's economic performance, budget controls remain in place and there is continued progress toward achieving balance between ongoing revenues and expenditures as well as in addressing the Commonwealth's unfunded retirement benefit obligations.

On January 19, 2011, Fitch, Inc. ("Fitch") assigned a "BBB+" rating to the Commonwealth's general obligation and appropriation debt with a stable outlook. In assigning the rating, Fitch stated that, while it recognized the Commonwealth's historic budget deficits, overestimation of revenues, reliance on borrowings to meet budgetary gaps, and the low level of pension funding, the successful implementation of the dramatic steps taken by the government to restructure fiscal operations and stimulate the economy was a positive credit factor.

On April 19, 2010, Moody's Investors Service ("Moody's") announced the results of the recalibration of certain U.S. municipal bond issues and issuers in order to enhance the comparability of credit ratings across its portfolio of rated securities. As a result of this recalibration, the Commonwealth's general obligation debt is now rated "A3" by Moody's, which is three categories above the previous "Baa3" rating. On August 10, 2010, Moody's assigned a negative outlook to the Commonwealth's general obligation debt and related credits primarily as a result of the low funding levels of the Commonwealth's retirement systems.

On May 3, 2011, Moody's placed the A3 general obligation rating of the Commonwealth on watchlist for possible downgrade citing the weak funding ratio of the Commonwealth's retirement systems and the significant strain that their future funding requirements will likely exert on the Commonwealth's financial condition. This action also affects other ratings that are related to the Commonwealth rating, including the rating on the Notes. Moody's expects to conclude its review within 90 days.

Appointment of a New President for Government Development Bank and a New Director for the Office of Management and Budget

On February 16, 2011, the Governor announced the appointment of Juan Carlos Batlle as President of Government Development Bank and José R. Otero-Freiría as Executive Vice President and Financing Director, each effective March 2, 2011. The appointment of Mr. Batlle and Mr. Otero-Freiría follows the resignation of Carlos M. García, the former President of Government Development Bank, and Fernando L. Batlle, the former Executive Vice President for Financing and Treasury, each of which stepped down from his position on March 1, 2011. In order to ensure an orderly transition for the new management team, Mr. García and Mr. Batlle remained at Government Development Bank as the Chairman of the Board of Directors and as Special Aide to the Chairman of the Board of Directors, respectively, until March 30, 2011.

Mr. Juan Carlos Batlle has 14 years of experience in the banking industry, most recently serving as one of the top executives in the Santander Group's operations in Puerto Rico. Mr. Otero-Freiría has served in the Office of the Governor as Advisor to the Governor for Economic Development and Finance and Deputy Chief of Staff for Public Policy. He also has held top positions in the financial field at top U.S. and Puerto Rico companies. See "Board of Directors and Management" under *Government Development Bank* herein.

The Governor also announced on February 16, 2011 the appointment of Mr. Juan Carlos Pavía as the new director of OMB. Mr. Pavía replaced Ms. Maritza Garay, who held the position since January 2011 on an interim basis. Mr. Pavía has served as Assistant Advisor to the Governor for Economic Development and Finance, Senior Advisor to the President of Government Development Bank, Executive Director of the Board of Fiscal Stability and Reconstruction and, most recently, as Executive Vice President and Fiscal Agent of Government Development Bank. Prior to his government service, Mr. Pavía was employed in the commercial banking field.

Recent Bond Issues by the Commonwealth

On February 17, 2011, the Commonwealth issued $356,520,000 of its Public Improvement Refunding Bonds, Series 2011 A (General Obligation Bonds) (the "Series 2011 A Bonds") and terminated approximately $231 million of synthetic fixed rate swaps associated with the general obligation bonds refunded by the Series 2011 A Bonds.

On March 2, 2011, the Commonwealth issued $274,550,000 of its Public Improvement Refunding Bonds, Series 2011 B (General Obligation Bonds) (the "Series 2011 B Bonds"). The Series 2011 B Bonds were directly purchased by an institutional investor and the proceeds were used to refund on a current basis the Commonwealth's Public Improvement Refunding Bonds, Series 2007A-8, Series 2007A-9 and Series 2008 B.

On March 17, 2011, the Commonwealth issued $442,015,000 of its Public Improvement Refunding Bonds, Series 2011 C (General Obligation Bonds) (the "Series 2011 C Bonds"). The proceeds of the Series 2011 C Bonds were used to repay advances made to the Commonwealth under a line of credit with Government Development Bank and to pay capitalized interest on the Series 2011 C Bonds.

INVESTMENT CONSIDERATIONS

Prospective purchasers should consider carefully the following factors and other information in this Official Statement before deciding to invest in the 2011 Series B Notes. The following discussion of investment considerations involved in purchasing and owning the 2011 Series B Notes is not, and is not intended to be, a complete list of the considerations associated with the purchase of the 2011 Series B Notes and does not necessarily reflect the relative importance of the various factors. Prospective purchasers of the 2011 Series B 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 2011 Series B Notes.

Risks related to Government Development Bank's operations

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

One of Government Development Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, public corporations and municipalities. This financing includes interim loans to finance the capital expenditures of the Commonwealth and its instrumentalities, public corporations and municipalities in anticipation of the issuance of bonds and notes, and loans to cover operational deficits of such governmental entities. The aggregate amount of these loans by Government Development 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 instrumentalities, 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 instrumentalities and 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 instrumentalities, public corporations and municipalities may have an adverse effect on the financial condition and liquidity of Government Development Bank.

The access of the Commonwealth and its instrumentalities and 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 instrumentalities and public corporations are downgraded, Government Development Bank may be asked to provide financing for these capital improvement programs or for working capital needs. Government Development Bank is not required by law to provide such financing. Under Act No. 164 of 2001, as amended, Government Development 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, which amount will be reduced to $100 million in aggregate loans after June 30, 2011, and including loans needed to cover the governmental entity's debt service. Government Development Bank generally does not provide financing to any governmental entity of the Commonwealth unless Government Development 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. Government Development 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 Government Development Bank's financial condition and liquidity. For additional information on the fiscal situation and 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 Government Development Bank's level of public sector loans increases as a result of the reasons mentioned above, or if debt service payments to Government Development Bank on these loans were not made as scheduled, Government Development Bank may need to increase its borrowings or otherwise access alternate sources of funds.

Government Development Bank is not subject to single borrower limitations

Government Development Bank is not subject to limitations on loans to one borrower, and the default by one debtor or a few debtors may have a materially adverse effect on the value of its assets. As of December 31, 2010, loans to the Treasury Department, the Puerto Rico Highways and Transportation Authority (the "Highways and Transportation Authority") and the Puerto Rico Aqueduct and Sewer Authority ("PRASA") represented approximately 13.15%, 14.44%, and 11.39%, respectively, of Government Development Bank's total loan assets, and collectively represent 38.97% of its total loan assets. Moreover, Government Development Bank is not restricted from further increasing the concentration of its loans to the abovementioned or any other agencies or parties. To manage the credit risk of its debtors, Government Development Bank has entered into fiscal oversight agreements with certain of its debtors, including PRASA and the Highways and Transportation Authority, whereby Government Development Bank, among other things, imposes conditions on the extensions of credit to these entities and continually monitors their finances. Although Government Development Bank monitors and manages its credit risk, there is no precise method of predicting how the credit standing of a borrower may be impacted by unforeseen circumstances. The default by any such borrower on Government Development Bank's loans may have a materially adverse effect on the financial condition of Government Development Bank.

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

Government Development 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 Government Development Bank's deposits are from government instrumentalities, public corporations and municipalities. Government Development 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 Government Development 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 Government Development Bank would in fact be able to access these alternate sources of funds.

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

Adverse movements in interest rates may negatively affect Government Development 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 Government Development Bank.

Changes in interest rates may negatively affect the following areas of Government Development Bank's business:

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

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

Risks related to the 2011 Series B Notes

The 2011 Series B Notes are solely Government Development Bank's obligations, and it does not have taxing power

The 2011 Series B Notes are not obligations of the Commonwealth or any of its instrumentalities or political subdivisions, other than Government Development Bank. The 2011 Series B Notes will be solely Government Development Bank's obligations, and no other entity will have any obligation, contingent or otherwise, to make any payments with respect to the 2011 Series B Notes. Government Development Bank does not have any taxing power.

The ability of Government Development Bank to make payments in amounts sufficient to provide for payment of the principal of and interest on the 2011 Series B 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 2011 Series B Notes are not guaranteed by assets of Government Development Bank's subsidiaries

Because the 2011 Series B Notes are issued by Government Development Bank and are not guaranteed by Government Development Bank's subsidiaries, holders of the 2011 Series B Notes will not have recourse against Government Development Bank's subsidiaries. As of June 30, 2010, approximately $1.5 billion out of Government Development Bank's consolidated total assets of $14.0 billion were held by Government Development Bank's subsidiaries and are, therefore, unavailable for the payment of debt service on the 2011 Series B Notes. As of December 31, 2010, total assets held by Government Development Bank's subsidiaries were $1.6 billion out of a total of $14.2 billion.

Some or all of the 2011 Series B Notes may be subject to early redemption by Government Development Bank

Government Development Bank may choose to redeem some or all of the 2011 Series B Notes (to the extent some or all of the 2011 Series B Notes are subject to optional redemption by Government Development Bank), at times when prevailing interest rates are lower than when the 2011 Series B Notes were issued. If this happens, holders of the 2011 Series B 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 2011 Series B Notes.

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

The remedies available to the owners of the 2011 Series B 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 2011 Series B 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 2011 Series B Notes may be affected by a negative change in their ratings

The rating initially assigned to the 2011 Series B Notes may be lowered or withdrawn by the rating agencies at any time. Such rating changes could adversely affect the value of and market for the 2011 Series B Notes.

A secondary market for the 2011 Series B Notes may not develop

There is currently no secondary market for the 2011 Series B 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 2011 Series B Notes with liquidity for their investment or that it will continue for the life of the 2011 Series B Notes. The Underwriters do not have a legal obligation to maintain a market for the 2011 Series B Notes.

USE OF PROCEEDS

Government Development Bank will use the proceeds from the sale of the 2011 Series B Notes for general corporate purposes, including, but not limited to, increasing its investment portfolio and making loans to, and purchasing obligations of, the Commonwealth and its public corporations, instrumentalities and municipalities, and redeeming the following balances of the outstanding Notes previously issued under the Indenture:

Maturity Date February 1,	Principal Amount	Interest Rate	CUSIP Number
Senior Notes, 2009 Series C			
2015	$ 352,604,000	5.100%	745177DW2
Senior Notes, 2009 Series D			
2015	$ 47,396,000	5.100%	745177EC5
Total	$ 400,000,000		

THE 2011 SERIES B NOTES

General

The 2011 Series B Notes will be dated their date of delivery and will mature (subject to prior redemption as described below) on such dates and amounts as set forth on the inside cover page of this Official Statement. The 2011 Series B Notes will be issued as fully registered notes without coupons, in denominations of $5,000 principal amount and integral multiples of $5,000 in excess thereof.

Interest on the 2011 Series B 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 semiannually in arrears on the first day of each May and November, commencing on November 1, 2011, and if such day is not a business day, then the next succeeding business day, until maturity or prior redemption. Interest on the 2011 Series B 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 2011 Series B Notes. The 2011 Series B 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. See "Book-Entry Only System and Global Clearance Procedures" below.

Optional Redemption

The 2011 Series B Notes are subject to redemption prior to maturity at the option of Government Development Bank, on any date, either in whole or in part (and if in part, in such order of maturity as directed by Government Development Bank), at a price equal to the greater of:

(a) the principal amount of the 2011 Series B Notes to be redeemed; or

(b) the sum of the present value of the remaining scheduled payments of principal and interest to the maturity date of the 2011 Series B Notes to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which such 2011 Series B Notes are to be redeemed, discounted to the date on which such 2011 Series B Notes are to be redeemed, assuming a 360-day year consisting of twelve 30-day months, at the Treasury Rate (as defined below) plus 45 basis points;

plus, in each case, accrued interest on the 2011 Series B Notes to be redeemed to the redemption date.

"Treasury Rate" means, with respect to any redemption date for a particular 2011 Series B Notes, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date, but not more than 45 calendar days (excluding inflation indexed securities), or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the redemption date to the maturity date of the 2011 Series B Notes to be redeemed; provided, however, that if the period from the redemption date to such maturity date is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Notice and Effect of Redemption; Partial Redemption

Any redemption of the 2011 Series B Notes, either in whole or in part, will be made upon at least 30 days' prior notice by mail to DTC or, if the book-entry only system described above has been discontinued, by first-class mail, postage prepaid, to all registered owners of the 2011 Series B 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 2011 Series B Notes or portions thereof so called for redemption being held by the Trustee, interest on the 2011 Series B 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.

Any notice of optional redemption may state that the redemption is conditional, and if so, the notice will state what the conditions are. If at the time of mailing a notice of optional redemption there has not been deposited with the Trustee moneys sufficient to redeem the 2011 Series B Notes called for redemption, such notice will state that it is subject to the deposit of the redemption moneys with the Trustee not later than one business day prior to the redemption date, and such notice will be of no effect unless such moneys are so deposited. A conditional notice of optional redemption may be rescinded by Government Development Bank upon not less than two business days' notice prior to the proposed redemption date.

If less than all the 2011 Series B 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 2011

Series B 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 Government Development Bank

The Notes are general, unsecured, senior obligations of Government Development Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of Government Development Bank for borrowed money and with unsecured and unsubordinated Government Development 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 that are issued and may be issued under the Indenture.

Book-Entry Only System and Global Clearance Procedures

General. The 2011 Series B Notes will be available only in book-entry form. The Depository Trust Company ("DTC"), New York, NY, will act as the initial securities depository for the 2011 Series B Notes. The 2011 Series B Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One or more fully-registered note certificates will be issued for the 2011 Series B Notes of each series and maturity, in the aggregate principal amount thereof and will be deposited with DTC. Beneficial Owners (defined below) may own beneficial interests in the 2011 Series B Notes in the United States through DTC and in Europe through Clearstream Banking, société anonyme ("Clearstream, Luxembourg") and Euroclear Bank S.A./N.V. ("Euroclear"), directly if they are participants of such systems, or indirectly through organizations that are participants in such systems. Clearstream, Luxembourg and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective U.S. Depositories (defined below), which in turn will hold such positions in customers' securities accounts in the U.S. Depositories' names on the books of DTC.

Government Development Bank, the Trustee and the underwriters cannot and do not give any assurances that DTC, the Participants (defined below), Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear will distribute to the Beneficial Owners of the 2011 Series B Notes (1) payments of principal of or interest or redemption premium on the 2011 Series B Notes, (2) confirmations of their ownership interests in the 2011 Series B Notes or (3) other notices sent to DTC or Cede & Co., its partnership nominee, as the registered owner of 2011 Series B Notes, or that they will do so on a timely basis, or that DTC, the Participants, Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear will serve and act in the manner described in this Official Statement.

Neither Government Development Bank nor the Trustee will have any responsibility or obligations to DTC, the Participants, Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear or the Beneficial Owners with respect to (i) the accuracy of any records maintained by DTC or any of the Participants, Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear; (2) the payment by DTC or any of the Participants, Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear of any amount due to any Beneficial Owner in respect of the principal amount of or interest or redemption premium on the 2011 Series B Notes; (3) the delivery by DTC or any of the Participants, Clearstream, Luxembourg, participants of Clearstream, Luxembourg, Euroclear or participants of Euroclear of any notice to any Beneficial Owner that is required or permitted to be given to owners under the terms of the 2011 Series B Note sale order; (4) the selection of the Beneficial Owners to receive payment in the event of any partial redemption of the 2011 Series B Notes; or (5) any consent given or other action taken by DTC as owner of the 2011 Series B Notes.

Portions of the information below concerning DTC, Clearstream, Luxembourg and Euroclear and their book-entry systems are based on information furnished by DTC, Clearstream, Luxembourg and Euroclear, respectively, to Government Development Bank. No representation is made herein by Government Development Bank, the Trustee or the underwriters as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.

DTC. DTC will act as securities depository for the 2011 Series B Notes. The 2011 Series B Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2011 Series B Note certificate will be issued for each maturity of the 2011 Series B Notes, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such maturity.

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," and together with the Direct Participants, the "Participants"). DTC has Standard & Poor'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 and www.dtc.org.

Purchases of the 2011 Series B Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2011 Series B Notes on DTC's records. The ownership interest of each actual purchaser of each 2011 Series B Note ("Beneficial Owner") is in turn to 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 transaction, 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 2011 Series B 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 certificates representing their ownership interests in 2011 Series B Notes, except in the event that use of the book-entry system for the 2011 Series B Notes is discontinued.

To facilitate subsequent transfers, all 2011 Series B 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 2011 Series B 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 2011 Series B Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2011 Series B 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 2011 Series B Notes, such as redemptions, defaults, and proposed amendments to the 2011 Series B Note documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2011 Series B 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 2011 Series B 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 issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2011 Series B Notes unless authorized by a Direct Participant in accordance with DTC's MMI procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Government Development 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 2011 Series B Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal payments and interest payments on the 2011 Series B 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 Government Development Bank on 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 Government Development 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 Government Development 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 2011 Series B Notes at any time by giving reasonable notice to Government Development Bank or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, definitive Notes will be printed and delivered.

Government Development 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.

Clearstream, Luxembourg. Clearstream, Luxembourg holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg customers through electronic book-entry changes in accounts of Clearstream, Luxembourg customers, thereby eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream, Luxembourg in any of 36 currencies, including United States Dollars. Clearstream, Luxembourg provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier ("CSSF") and the Banque Centrale du Luxembourg ("BCL") which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxemhourg's customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

Clearstream, Luxembourg's U.S. customers are limited to securities brokers and dealers and banks. Currently, Clearstream, Luxembourg has approximately 2,000 customers located in over 80 countries, including all major European countries, Canada, and the United States. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of Clearstream, Luxembourg. Clearstream, Luxembourg, has established an electronic bridge with Euroclear as the Operator of the Euroclear system (the "Euroclear Operator") in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Euroclear. Euroclear holds securities and book-entry interests in securities for participating organizations and facilitates the clearance and settlement of securities transactions between Euroclear participants, and between Euroclear participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations. Certain of the managers or underwriters for this offering, or other financial entities involved in this offering, may be Euroclear participants. Non-participants in the Euroclear system may hold and transfer book-entry interests in the 2011 Series B Notes through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in the 2011 Series B Notes through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Clearance and Settlement. Although Euroclear has agreed to the procedures provided below in order to facilitate transfers of securities among participants in the Euroclear system, and between Euroclear participants and participants of other intermediaries, it is under no obligation to perform or continue to perform such procedures and such procedures may be modified or discontinued at any time.

Initial Distribution. Investors electing to acquire 2011 Series B Notes through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of new issues of securities. 2011 Series B Notes to be acquired against payment through an account with Euroclear will be credited to the securities clearance accounts of the respective Euroclear participants in the securities processing cycle for the business day following the settlement date for value as of the settlement date, if against payment.

Secondary Market. Investors electing to acquire, hold or transfer 2011 Series B Notes through an account with Euroclear or some other securities intermediary must follow the settlement procedures of such an intermediary with respect to the settlement of secondary market transactions in securities. Please be aware that Euroclear will not monitor or enforce any transfer restrictions with respect to the securities offered herein.

Custody. Investors who are participants in the Euroclear system may acquire, hold or transfer interests in the 2011 Series B Notes by book-entry to accounts with Euroclear. Investors who are not participants in the Euroclear system may acquire, hold or transfer interests in the 2011 Series B Notes by book-entry to accounts with a securities intermediary who holds a book-entry interest in the 2011 Series B Notes through accounts with Euroclear.

Custody Risk. Investors that acquire, hold and transfer interests in the 2011 Series B Notes by book-entry through accounts with Euroclear or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the individual 2011 Series B Notes.

Euroclear has advised as follows:

Under Belgian law, investors that are credited with securities on the records of Euroclear have a coproperty right in the fungible pool of interests in securities on deposit with Euroclear in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of Euroclear, Euroclear participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with Euroclear. If Euroclear did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all participants credited with such interests in securities on Euroclear's records, all participants having an amount of interests in securities of such type credited to their accounts with Euroclear would have the right under Belgian law to the return of their pro-rata share of the amount of interests in securities actually on deposit.

Under Belgian law, Euroclear is required to pass on the benefits of ownership in any interests in securities on deposit with it (such as dividends, voting rights and other entitlements) to any person credited with such interests in securities on its records.

Initial Settlement; Distributions; Actions Upon Behalf of Owners. All of the 2011 Series B Notes will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream, Luxembourg and Euroclear may hold omnibus positions on behalf of their participants through customers securities accounts in Clearstream, Luxembourg's and/or Euroclear's names on the books of their respective U.S. Depository, which, in turn, holds such positions in customers' securities accounts in its U.S. Depository's name on the books of DTC. Citibank, N.A. acts as depository for Clearstream, Luxembourg and JPMorgan Chase Bank acts as depository for Euroclear (the "U.S. Depositories"). Holders of the 2011 Series B Notes may hold their 2011 Series B Notes through DTC (in the United States) or Clearstream, Luxembourg or Euroclear (in Europe) if they are participants of such systems, or directly through organizations that are participants in such systems. Investors electing to hold their 2011 Series B Notes through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Euro bonds in registered form. 2011 Series B Notes will be credited to the securities custody accounts of Euroclear and Clearstream, Luxembourg holders on the business day following the settlement date against payment for value on the settlement date.

Distributions with respect to the 2011 Series B Notes held beneficially through Clearstream, Luxembourg will be credited to the cash accounts of Clearstream, Luxembourg customers in accordance with its rules and procedures, to the extent received by its U.S. Depository. Distributions with respect to the 2011 Series B Notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the terms and conditions governing the relationship between Euroclear and Euroclear participants, to the extent received by its U.S. Depository. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by an owner of the 2011 Series B Notes on behalf of a Clearstream, Luxembourg customer or Euroclear participant only in accordance with the relevant rules and procedures and subject to the ability of the U.S. Depositories to effect such actions on its behalf through DTC.

Secondary Market Trading. Secondary market trading between participants (other than U.S. Depositories) will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds. Secondary market trading between Euroclear participants and/or Clearstream, Luxembourg customers will be settled using the procedures applicable to conventional Euro bonds in same-day funds. When 2011 Series B Notes are to be transferred from the account of a participant (other than U.S. Depositories) to the account of a Euroclear participant or a Clearstream, Luxembourg customer, the purchaser must send instructions to the applicable U.S. Depository one business day before the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will instruct its U.S. Depository to receive the 2011 Series B Notes against payment. Its U.S. Depository will then make payment to the participants account against delivery of the 2011 Series B Notes. After settlement has been completed, the 2011 Series B Notes will be credited to the respective clearing system and by the clearing system, in accordance with its usual procedures, to the Euroclear participant's or Clearstream, Luxembourg customer's accounts. Credit for the 2011 Series B Notes will appear on the next day (European time) and cash debit will be backvalued to, and the interest on the 2011 Series B Notes will accrue from, the value date (which would be the preceding day when settlement occurs in New York). If settlement is not completed on the intended value date (*i.e.*, the trade fails), the Euroclear or Clearstream, Luxembourg cash debit will be valued instead as of the actual settlement date.

Euroclear participants and Clearstream, Luxembourg customers will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to pre-position funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Euroclear or Clearstream, Luxembourg. Under this approach, they may take on credit exposure to Euroclear or Clearstream, Luxembourg until the 2011 Series B Notes are credited to their accounts one day later. As an alternative, if Euroclear or Clearstream, Luxembourg has extended a line of credit to them, participants/customers can elect not to pre-position funds and allow that credit line to be drawn upon to finance settlement. Under this procedure, Euroclear participants or Clearstream, Luxembourg customers purchasing 2011 Series B Notes would incur overdraft charges for one day, assuming they cleared the overdraft when the 2011 Series B Notes were credited to their accounts. However, interest on the 2011 Series B Notes would accrue from the value date. Therefore, in many cases, the investment income on 2011 Series B Notes earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each participant's/customer's particular cost of funds. Because the settlement is taking place during New York business hours, participants can employ their usual procedures for sending securities to the applicable U.S. Depository for the benefit of Euroclear participants or Clearstream, Luxembourg customers. The sale proceeds will be available to the DTC seller on the settlement date.

Thus, to the participant, a cross-market transaction will settle no differently from a trade between two participants.

Due to time zone differences in their favor, Euroclear participants and Clearstream, Luxembourg customers may employ their customary procedure for transactions in which securities are to be transferred by the respective clearing system, through the applicable U.S. Depository to another participant's account. In these cases, Euroclear will instruct its U.S. Depository to credit the 2011 Series B Notes to the participant's account against payment. The payment will then be reflected in the account of the Euroclear participant or Clearstream, Luxembourg customer the following business day, and receipt of the cash proceeds in the Euroclear participant's or Clearstream, Luxembourg customer's accounts will be backvalued to the value date (which would be the preceding day, when settlement occurs in New York). If the Euroclear participant or Clearstream, Luxembourg customer has a line of credit with its respective clearing system and elects to draw on such line of credit in anticipation of receipt of the sale proceeds in its account, the back-valuation may substantially reduce or offset any overdraft charges incurred over that one-day period. If settlement is not completed on the intended value date (*i.e.*, the trade fails), receipt of the cash proceeds in the Euroclear participant's or Clearstream, Luxembourg customer's accounts would instead be valued as of the actual settlement date.

Procedures May Change. Although DTC, Clearstream, Luxembourg and Euroclear have agreed to these procedures in order to facilitate transfers of securities among DTC, the Participants, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform these procedures and these procedures may be discontinued and may be changed at any time by any of them.

Payments and Transfers

No assurance can be given by Government Development Bank that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. Government Development 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 2011 Series B 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 2011 Series B 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 2011 Series B Notes will be payable by check mailed to the respective addresses of the registered owners determined as of the 15th day of the month preceding the interest payment date as shown on the registration books of Government Development Bank maintained by the Trustee. The 2011 Series B Notes will be issued only as registered notes without coupons in denominations of $5,000 and integral multiples of $5,000 in excess thereof. The transfer of the 2011 Series B 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.

GOVERNMENT DEVELOPMENT BANK

Organization and Powers

Government Development 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 "Enabling Act") to aid the Commonwealth in the performance of its fiscal duties and more effectively carry out its governmental responsibility to develop the economy of Puerto Rico, particularly with respect to its industrialization. The Enabling Act establishes Government Development Bank's charter (the "Charter"), which provides that its existence is perpetual. Pursuant to the Enabling Act, no amendment to the Enabling Act, or to any other law of the Commonwealth, may impair any outstanding obligation or commitment of Government Development Bank.

Under its Charter, Government Development Bank has the power, among other things, to borrow money, to issue bonds, notes, debentures, and other obligations, to lend money to and purchase obligations issued by the Commonwealth, its instrumentalities, public corporations and municipalities, 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. It also has the power to acquire property for its corporate purposes; to acquire any property in the settlement or reduction of debts previously contracted, where such acquisition is necessary to minimize or avoid loss in connection therewith; to establish branches, offices or agencies for the transaction of its business; to purchase, hold, lease, mortgage and convey real property; and to create subsidiary or affiliate corporations. See "General Financial Information" below.

Government Development 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. Government Development Bank is subject to examination and supervision by the Commissioner of Financial Institutions of the Commonwealth. The Comptroller of the Commonwealth, who is responsible to the Legislature of Puerto Rico, also reviews the operations of Government Development Bank every two to three years.

Principal Functions

The principal functions of Government Development Bank are to act as fiscal agent, paying agent and financial advisor to the Commonwealth and its instrumentalities, public corporations and municipalities, and to the Governor, the Council of Secretaries, and the Secretary of Treasury of Puerto Rico; to provide interim and long-term financing to the Commonwealth and its instrumentalities, public corporations and municipalities, and to private parties for economic development; and to act as depositary or trustee of funds for the Commonwealth and its instrumentalities, public corporations and municipalities.

In its role as fiscal agent and financial advisor, it acts as advisor to the Commonwealth and its instrumentalities, public corporations and municipalities in connection with all their borrowings, and all such borrowings are subject to prior approval by Government Development Bank. Government Development Bank receives fees for rendering such services.

Government Development Bank lends to, and purchases and guarantees certain obligations of, the Commonwealth and its instrumentalities, public corporations and municipalities. It provides interim financing to these entities in anticipation of their refinancing such indebtedness in the bond market and also provides long-term financing to such entities. In fiscal years 2010, 2009, and 2008, Government Development Bank disbursed individual lines of credit and other financing facilities to the public sector in aggregate amounts of approximately \$3.3 billion, \$3.8 billion, and \$2.8 billion, respectively. For a breakdown of the outstanding principal amount of certain of Government Development Bank's loans to the public sector, see the table under "Loans to the Commonwealth, its Public Corporations and Municipalities" below.

Government Development Bank also lends to the private sector, mainly through its subsidiaries, the Tourism Development Fund and the Housing Finance Authority. For a description of Government Development Bank's loans to the private sector, see "Loans to Private Enterprises" below. From time to time, Government Development 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.

Fiscal Oversight Agreements

As part of its risk management activities and as a condition to provide financing support to certain public corporations and agencies, Government Development Bank has entered into fiscal oversight agreements ("FOAs") with the Highways and Transportation Authority, PRASA, the Electric Power Authority, the Ports Authority, the Puerto Rico Medical Services Administration and the Puerto Rico Health Insurance Administration. The FOAs require such public corporations and agencies to implement a comprehensive expense reduction program, including certain fiscal oversight controls designed to minimize future tariff increases to households and the private sector, and to protect and improve their credit ratings. Such public corporations and agencies are also required to provide to Government Development Bank monthly reports concerning their financial condition.

Government Development Bank's agreement to provide current financing and any future financing is expressly conditioned upon the public corporation's or agency's compliance with the covenants established in its FOA. Each FOA will remain in effect until the parties mutually agree that the public corporation or agency has regained a level of financial stability and is able to secure long-term financing that will result in the continued stability of its operations and financial condition.

As of April 15, 2011, all public corporations and agencies have complied with the material terms and conditions of the FOAs.

Board of Directors and Management

Government Development Bank is governed by a seven member Board of Directors appointed by the Governor with the approval of the Council of Secretaries. The Board of Directors currently has two vacancies and consists of the following five members serving terms as indicated:

Member	Commencement of Term	Expiration Date
Marcos Rodríguez-Ema, Chairman	January 15, 2009	September 23, 2011
Juan Carlos Batlle, Vice Chairman	March 2, 2011	September 23, 2012
Manuel H. Dubón, Esq.	February 2, 2009	September 23, 2012
Juan E. Rodríguez Díaz, Esq.	February 20, 2009	September 23, 2012
Agnes B. Súarez, CPA	July 1, 2009	September 23, 2014

The Board of Directors appoints a President who is the chief executive officer of Government Development Bank and is responsible for its day-to-day operations. Government Development Bank also has four executive vice presidents who are in charge of Government Development Bank's principal operational and business units. The following are Government Development Bank's principal officers:

Juan Carlos Batlle was appointed President of Government Development Bank effective March 2, 2011. Before entering public service, Mr. Batlle served 14 years with distinction as a top executive for Santander Group in Puerto Rico. He initially joined Santander in 1997 and soon began to move up the corporate ranks. As part of the Investment Banking Group of Santander Securities Corporation, he served consecutively as Assistant Vice President in 1999, Vice President in 2001, and Senior Vice President and Director in 2003. Then, in 2005, Mr. Batlle moved on to serve as First Senior Vice President of Banco Santander Puerto Rico and President and Chief Executive Officer of Santander Asset Management Corporation. Most recently, he went on to serve as Managing Director of Santander Securities Corporation in 2008. Prior to Santander, Mr. Batlle was with Popular Securities. Mr. Batlle has also been a member of the Boards of Directors of Santander Securities Corporation, Santander Asset Management Corporation and the First Puerto Rico Family of Funds. In addition, he has been a member of the Boards of Directors of the Puerto Rico Tourism Company, the Convention Center District Authority and the Hotel Development Corporation. He holds a degree in Economics from the College of Literature, Science and the Arts of the University of Michigan.

José R. Otero-Freiría was appointed Executive Vice President of Government Development Bank and Director of Financing effective March 2, 2011. Throughout his professional career, Mr. Otero-Freiría has held various top positions in the financial field, including Manager of Procter & Gamble's Finance Department in San Juan, Finance Manager for Guidant Corporation (later Boston Scientific) in Santa Clara, California, and Director of Institutional Investment Consulting Services at UBS Financial Services in San Juan, Puerto Rico. Most recently, he served in the Office of the Governor as Advisor for Economic Development and Finance, and as Deputy Chief of Staff for Public Policy. Mr. Otero-Freiría earned his bachelor's degree in Economics with a major in Finance and Accounting from the Wharton School of Business at the University of Pennsylvania. He later earned his Masters in Business Administration from Stanford University. He is a Certified Public Accountant.

Juan M. Román Rivera was appointed Executive Vice President and Fiscal Agent of Government Development Bank effective March 16, 2011. Before being named Executive Vice President of Government Development Bank, he served as Chief Advisor to the Governor on Government Management Performance and Executive Director of the Government's Reorganization Committee of the Executive Branch. In this role, Mr. Román oversaw the Government's efforts to streamline government's agencies, and internal processes to enhance government services as well as reduce government expenditures. Before entering public service, Mr. Román was the Commercial Director for ConAgra Foods Puerto Rico where he led several corporate reorganization efforts during his tenure from July 2004 to January 2009. Prior to ConAgra Foods, Mr. Román held several positions at Procter & Gamble Puerto Rico in sales, marketing, and operations roles. Mr. Román has a Masters of Science in Information Networking, which is a dual degree program (MBA/MSE) from Carnegie Mellon University, and a Bachelor of Science in Electrical Engineering from the University of Pennsylvania.

Javier Ramos Luiña, Senior Vice President, has 20 years of experience in the capital markets and banking industry of which the last 14 years has been at Government Development Bank. Throughout his tenure with Government Development Bank, Mr. Ramos has also directed several of its affiliates and subsidiaries. He is the Assistant Executive Director of the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority and for the past 9 years he was also the Executive Director for the Puerto Rico Tourism Development Fund, two public corporations that assist in financing capital investments that promote economic development in Puerto Rico. Mr. Ramos obtained his Masters in Business Administration degree from Atlanta University in 1990 and Bachelor of Science degree in Business Administration from Bryant College in 1988.

David Taylor became Senior Vice President of Capital Markets on March 1, 2011 after joining Government Development Bank as a director in February 2009 with the primary role of structuring its capital market deals. Prior to joining the bank he served in a similar capacity for municipal departments in major investment banks for approximately 23 years, with over ten years service at both Morgan Stanley and Paine Webber/UBS. Mr. Taylor graduated with honors in a Bachelor of Science degree from Saint Andrews University, Scotland.

Ignacio Canto was appointed Vice President and Treasurer of Government Development Bank in September 2010. Before being named Vice President and Treasurer of Government Development Bank, Mr. Canto worked at Santander Asset Management Corporation where he began as a portfolio analyst and later on became portfolio manager. At Santander Asset Management Corporation, he garnered experience trading interest rate derivatives, agency debentures, structured products, municipal bonds, equities and equity derivatives in the context of a geared portfolio. Prior to joining Santander Asset Management Corporation, he worked at Santander Securities Corporation as part of the Investment Banking Group where he participated in financings of the Commonwealth, its agencies, corporations and instrumentalities, including Government Development Bank, Puerto Rico Housing Finance Authority and Puerto Rico Convention Center District Authority. In addition, Mr. Canto has performed financial analysis and valuations for corporate clients with a particular emphasis on mergers and acquisitions. Mr. Canto holds a Bachelor of Business Administration in Finance from Boston University's School of Management, as well as the Chartered Financial Analyst designation (CFA) and the Financial Risk Manager designation (FRM).

Rubén Méndez-Benabe became Executive Vice President, General Counsel and Secretary of the Board of Directors, effective December 1, 2010. Before being named General Counsel of Government Development Bank, Mr. Méndez-Benabe was Advisor to the President of Government Development Bank. He has also served as Executive Advisor and Legal Counsel to the Commissioner of Financial Institutions. Mr. Méndez-Benabe has extensive experience in regulation of financial institutions and holds a Juris Doctor degree from the University of Puerto Rico School of Law and a bachelor's degree from the University of Puerto Rico.

As of December 31, 2010, Government Development Bank, its subsidiaries and affiliates had approximately 411 employees, 136 of which were members of the Union of Employees of Government Development Bank for Puerto Rico.

The main offices of Government Development 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 also maintains an office at 135 West 50th Street, 22nd Floor, New York, NY, telephone (212) 422-6420.

Government Development Bank Subsidiaries

Government Development Bank has several subsidiaries which perform various functions. The principal subsidiaries and their functions are listed below.

Housing Finance Authority. Puerto Rico Housing Finance Authority (formerly known as Puerto Rico Housing Finance Corporation) (the "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 December 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 were $120.7 million. The Housing Finance Authority's mortgage loans to low and moderate income homeowners represented an additional outstanding principal balance of $100.4 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 December 31, 2010, $787 million of these bonds were outstanding.

As of December 31, 2010, the Housing Finance Authority had total notes and bonds outstanding of $1,047.1 million (including $107.3 million of debt outstanding under lines of credit with Government Development Bank and $839.8 million in bonds issued to fund certain payments under its mortgage subsidy programs for low and moderate income families). As of December 31, 2010, the Housing Finance Authority had total unrestricted net assets of $280.6 million.

Tourism Development Fund. The Puerto Rico Tourism Development Fund (the "Tourism Development Fund") was created in November 1993 to facilitate the development of Puerto Rico's hotel and tourism industry. The Tourism Development Fund works with private sector financial institutions to structure financings for new hotel projects. The Tourism Development Fund is also authorized to make capital investments in tourism related projects. As of December 31, 2010, the Tourism Development Fund had outstanding direct loans in an aggregate outstanding amount of $410.9 million, and guarantees and letters of credit issued in the outstanding amount of $333.6 million (with a maximum commitment amount of guarantees and letters of credit of $546.9 million). In addition, the Tourism Development Fund has a $50 million preferred equity investment in a tourism-related project.

Since 1993, the Tourism Development Fund has made payments under its guarantees and letters of credit in the aggregate amount of approximately $210 million with respect to several projects. Of the total amount disbursed, the Tourism Development Fund has been able to recover approximately $156 million. As of December 31, 2010, the unrestricted net assets of the Tourism Development Fund were approximately $176.2 million, and its allowances for losses on loans and guarantees and letters of credit were approximately $81.7 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 Government Development Bank's general investment operations. As of December 31, 2010, the Capital Fund had assets of $261,621, consisting principally of money market investments.

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 enterprises and invest in their equity securities. On December 10, 2010, the Development Fund acquired for $8.5 million a commercial loan from a private commercial bank, secured by a first mortgage over a 2.34 acre parcel of land in the Convention Center District. As of December 31, 2010, the Development Fund had assets of $35.4 million, including investments of $17.6 million in loans to private entities, $11.9 million in an interest bearing account, and $5.8 million in preferred shares of various private entities.

Public Finance Corporation. The Puerto Rico Public Finance Corporation (the "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 PRASA, among others. All such bonds are limited non-recourse obligations of Public Finance Corporation payable solely from Commonwealth appropriations made to pay the notes held by the trustees. As of December 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 Government Development 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, 2010 and 2009 and 2008 was derived from Government Development Bank's audited financial statements. This information should be read together with Government Development Bank's financial statements as of and for the year ended June 30, 2010, attached as *Appendix I* to this Official Statement. Financial information as of and for the six-month periods ended December 31, 2010 and 2009 was derived from Government Development Bank's accounting records.

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

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	As of December 31,		As of June 30,		
	2010	2009	2010	2009	2008
Assets:					
Cash and due from banks	$ 9,433,321	$ 15,269,214	$ 6,121,959	$ 5,848,209	$ 60,212,101
Federal funds sold	421,000,000	75,000,000	331,000,000	1,364,000,000	316,620,000
Deposits placed with banks	42,702,497	171,496,191	32,639,067	1,085,257,933	1,533,888,304
Investments and investment contracts	3,782,858,209	4,207,472,709	4,585,470,934	2,580,994,163	2,635,014,277
Loans receivable, net	7,896,816,506	7,121,112,245	6,949,596,082	6,677,450,043	5,454,425,371
Interest and other receivables	188,520,403	150,547,704	127,051,217	191,390,695	259,623,379
Restricted Assets:					
Cash and due from banks	8,685,935	11,964,379	9,206,571	20,132,629	26,729,908
Deposits placed with banks	104,525,464	1,038,592	12,263,911	27,470,438	82,105,513
Due from federal government	-	-	24,109,197	-	20,936,674
Due from Commonwealth	-	-	5,000,000	-	-
Investments and investment contracts	1,393,628,385	1,567,414,004	1,633,127,774	1,792,596,262	1,770,847,186
Loans receivable, net	23,270,953	5,507,559	16,787,580	7,953,901	8,993,589
Interest and other receivables	13,654,411	5,427,994	2,679,245	5,414,582	6,079,549
Real estate available for sale	2,413,204	1,350,102	1,339,669	1,810,718	1,980,493
Other assets	5,912,469	6,547,001	6,357,650	7,372,112	8,211,544
Real estate available for sale	207,617,145	198,757,432	206,452,231	203,396,509	58,117,974
Capital assets	15,150,708	16,425,940	15,749,737	17,452,258	27,396,841
Other assets	97,014,012	80,452,139	83,614,606	50,614,763	44,811,983
Total assets	14,213,203,622	13,635,783,205	14,048,567,430	14,039,155,215	12,315,994,686
Liabilities:					
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:					
Demand	3,304,517,269	3,097,501,431	3,253,713,190	3,187,494,544	2,720,148,159
Certificates of deposit	1,781,030,120	3,097,207,698	2,895,484,554	4,367,312,924	4,283,385,449
Securities sold under agreements to repurchase	706,931,768	777,690,000	1,058,834,752	859,053,110	687,200,000
Commercial paper	-	-	-	-	500,000
Certificates of indebtedness	4,300,000	11,800,000	11,800,000	11,800,000	11,800,000
Bonds and notes payable, due within one year	266,469,539	63,675,876	158,614,189	72,659,611	93,355,224
Accrued interest payable	31,823,894	22,234,219	27,141,348	22,579,090	24,955,038
Accounts payable and accrued liabilities	46,155,375	36,101,224	51,442,456	48,162,048	64,943,966
Allowance for losses on guarantees and letters of credit	28,897,940	10,276,531	24,775,404	11,370,874	3,113,395
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	4,677,529,352	3,075,118,889	3,203,953,441	2,004,876,929	867,436,214
Liabilities payable from restricted assets:					
Accrued interest payable	1,373,351	1,728,585	1,440,545	2,609,213	3,219,730
Accounts payable and accrued liabilities	58,889,895	16,670,768	68,957,066	15,421,420	20,957,005
Bonds and mortgage-backed certificates payable:					
Due in one year	59,734,136	59,734,136	67,605,173	64,019,136	63,447,231
Due in more than one year	638,368,241	854,301,930	654,844,231	895,114,148	1,086,809,893
Total liabilities	11,632,020,880	11,150,041,287	11,504,606,349	11,588,473,047	9,957,271,304
Net assets:					
Invested in capital assets	15,150,708	16,425,940	15,749,737	17,452,258	27,396,841
Restricted for:					
Debt service	-	-	-	29,079,599	30,522,788
Affordable housing programs	303,685,040	183,437,411	283,828,699	177,745,445	259,979,021
Mortgage loan insurance	63,698,902	118,516,302	61,898,797	58,599,573	54,385,644
Other housing programs	2,621,594	-	4,182,693	-	-
Unrestricted assets	2,196,026,498	2,167,362,265	2,178,301,155	2,167,805,293	1,986,439,088
Total net assets	$ 2,581,182,742	$ 2,485,741,918	$ 2,543,961,081	$ 2,450,682,168	$ 2,358,723,382

Schedule of Balance Sheet Information – Government Development Bank Operating Fund

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

	As of December 31,		As of June 30,		
	2010	2009	2010	2009	2008
ASSETS					
Current assets:					
Cash and due from banks	$ 8,745,994	$ 17,860,974	$ 5,452,348	$ 5,770,346	$ 59,818,358
Federal funds sold	421,000,000	75,000,000	331,000,000	1,364,000,000	316,620,000
Deposits placed with banks	9,326,497	129,146,890	7,626,549	1,060,597,756	1,505,000,000
Investments and investment contracts	1,185,076,569	3,896,095,116	4,034,443,465	2,281,415,520	2,007,599,088
Loans receivable–net	540,864,967	1,987,049,821	563,592,459	801,029,454	802,644,635
Accrued interest receivable	190,607,040	149,100,172	128,314,302	120,307,996	258,507,954
Other current receivables	10,310,580	42,618,169	8,934,462	66,513,619	21,794,518
Other current assets	972,979	1,801,055	7,241,448	976,268	1,017,745
Due from governmental funds	103,772,005	98,027,166	100,735,356	109,840,613	112,101,375
Restricted:					
Investments and investment contracts	336,557,297	333,365,993	794,047,624	365,539,760	34,996,500
Total current assets	2,807,233,928	6,730,065,356	5,981,388,013	6,175,991,332	5,120,100,173
Noncurrent assets:					
Restricted:					
Investments and investment contracts	475,256,656	524,017,907	342,142,751	576,258,797	705,854,918
Investments and investment contracts	2,509,336,054	315,185,004	371,709,200	326,106,666	583,317,273
Loans receivable–net	7,183,759,365	4,985,627,349	6,239,187,440	5,675,735,320	4,399,777,543
Real estate available for sale	206,359,944	197,349,959	205,026,337	200,959,644	56,323,019
Capital assets	11,807,985	12,549,415	12,148,383	13,293,463	22,850,528
Other assets	74,232,434	24,771,351	56,914,482	41,734,759	7,565,617
Total noncurrent assets	10,460,752,438	6,059,500,985	7,227,128,593	6,834,088,649	5,775,688,898
Total assets	$ 13,267,986,366	$ 12,789,566,341	$ 13,208,516,606	$ 13,010,079,981	$ 10,895,789,071

	As of December 31,		As of June 30,		
	2010	2009	2010	2009	2008
LIABILITIES					
Current Liabilities:					
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:					
Demand	$ 3,359,474,068	$ 3,150,905,324	$ 3,331,074,874	$ 3,250,161,806	$ 2,780,562,925
Certificates of deposit	1,913,952,206	3,201,031,763	3,011,667,815	4,852,867,272	4,578,483,723
Certificates of indebtedness	4,300,000	7,500,000	7,500,000	-	-
Securities sold under agreements to repurchase	706,931,768	437,690,000	1,058,834,752	419,053,110	207,200,000
Commercial paper	-	-	-	-	500,000
Accrued interest payable	43,760,761	34,401,806	38,566,132	34,464,747	36,027,309
Accounts payable and accrued liabilities	25,268,872	18,708,126	32,805,812	27,869,426	38,772,134
Due to governmental funds	24,375,301	16,526,143	22,560,287	34,042,141	24,766,706
Notes payable	186,469,539	63,675,876	158,614,189	72,659,611	93,204,456
Total current liabilities	6,264,532,515	6,930,439,038	7,661,623,861	8,691,118,113	7,759,517,253
Noncurrent liabilities:					
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	608,356,494	634,685,594	633,270,717	223,045,529	321,382,747
Certificates of indebtedness	-	4,300,000	4,300,000	11,800,000	11,800,000
Securities sold under agreements to repurchase	-	340,000,000	-	440,000,000	480,000,000
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	4,904,689	5,563,382	4,904,689	3,186,855	2,451,157
Bonds and notes payable	4,672,718,115	3,215,385,885	3,199,142,204	2,000,065,693	862,624,977
Total noncurrent liabilities	5,286,979,298	4,200,934,861	3,842,617,610	2,679,098,077	1,679,258,881
Total liabilities	11,551,511,813	11,131,373,899	11,504,241,471	11,370,216,190	9,438,776,134
NET ASSETS					
Invested in capital assets	11,807,985	12,549,415	12,148,383	13,293,463	22,850,528
Unrestricted	1,704,666,568	1,645,643,027	1,692,126,752	1,626,570,328	1,434,162,409
Total net assets	1,716,474,553	1,658,192,442	1,704,275,135	1,639,863,791	1,457,012,937
Total liabilities and net assets	$ 13,267,986,366	$ 12,789,566,341	$ 13,208,516,606	$ 13,010,079,981	$ 10,895,789,071

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 Government Development Bank and its subsidiaries for each of the fiscal years ended June 30, 2010, 2009 and 2008, and the six months ended December 31, 2010 and 2009. Information regarding fiscal years 2010, 2009 and 2008 was derived from Government Development Bank's audited financial statements. Information regarding the six months ended December 31, 2010 and 2009 was derived from Government Development 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 Government Development Bank's basic financial statements attached as *Appendix I* to this Official Statement) with respect to the business-type activities of Government Development Bank and its subsidiaries.

	For the six months ended December 31, 2010	For the six months ended December 31, 2009	For the year ended June 30, 2010	For the year ended June 30, 2009	For the year ended June 30, 2008
OPERATING REVENUES					
Investment income					
Interest income on federal funds sold	$ 839,661	$ 1,066,064	$ 1,662,078	$ 2,902,988	$ 47,676,634
Interest income on deposits placed with banks	12,976,284	14,017,891	26,731,021	37,059,275	112,401,952
Interest and dividend income on investments and investment contracts	40,215,350	43,707,117	83,971,825	137,025,547	128,377,998
Net increase (decrease) in fair value of investments	18,294,496	22,117,504	42,938,170	(4,260,072)	(1,168,293)
Total investment income	72,325,791	80,908,576	155,303,094	172,727,738	287,288,291
Interest income on loans receivable					
Public sector	190,244,364	148,427,627	331,115,998	239,211,316	261,387,745
Private sector	13,016,504	10,368,166	21,558,890	20,637,474	27,446,107
Total interest income on loans receivable	203,260,868	158,795,793	352,674,888	259,848,790	288,833,852
Total investment income and interest income on loans receivable	275,586,659	239,704,369	507,977,982	432,576,528	576,122,143
Noninterest income					
Fiscal agency fees	2,794,804	2,426,276	17,324,977	11,408,424	20,488,024
Commitment, guarantee and other service fees	10,866,119	9,475,410	15,110,856	13,579,385	14,006,195
Mortgage loan insurance premiums	1,403,929	1,515,752	3,156,393	3,000,213	3,052,525
Gain (loss) on sale of foreclosed real estate available for sale	155,497	(297,656)	-	483,266	4,528,663
Gain on sale of loans	-	-	-	335,030	24,776
Other income	451,164	394,195	1,012,304	944,142	8,088,190
Total noninterest income	15,671,513	13,513,977	36,604,530	29,750,460	50,188,373
Total operating revenues	291,258,172	253,218,346	544,582,512	462,326,988	626,310,516
OPERATING EXPENSES					
Provision for loan losses	1,365,277	1,165,353	13,340,143	46,461,481	2,093,926
Interest expense:					
Deposits	48,101,820	61,549,095	110,980,998	165,773,611	229,712,412
Securities sold under agreements to repurchase	9,305,624	13,072,236	25,000,086	30,635,161	23,917,723
Commercial paper	12,000	12,001	24,001	21,757	10,678,317
Certificates of indebtedness	16,003	20,116	27,030	240,556	487,903
Bonds and notes payable	164,959,617	101,307,016	228,518,310	163,907,386	167,500,716
Total interest expense	222,395,064	175,960,464	364,550,425	360,578,471	432,297,071
Noninterest expenses					
Salaries and fringe benefits	22,085,073	15,968,958	35,893,380	34,926,256	38,462,533
Depreciation and amortization	1,688,853	1,756,187	2,861,946	2,833,236	2,268,646
Occupancy and equipment costs	2,575,988	2,302,697	6,219,760	6,263,120	5,587,524
Legal and professional fees	6,132,462	1,624,781	6,263,191	6,132,182	5,697,999
Office and administrative	415,531	317,044	976,603	801,605	1,168,730
Subsidy and trustee fees	177,946	2,985,141	4,263,014	266,554	391,140
Provision for amount due from Puerto Rico Department of Housing	-	-	-	-	227,993
Provision for losses on guarantees and letters of credit	5,861,924	1,075,264	17,461,052	8,902,995	1,049,849
Other	1,537,418	10,273,492	19,686,953	6,353,101	(1,407,324)
Total noninterest expenses	40,475,195	36,303,564	93,625,899	66,479,049	53,447,090
Total operating expenses	264,235,536	213,429,381	471,516,467	473,519,001	487,838,087
OPERATING INCOME (LOSS)	27,022,636	39,788,965	73,066,045	(11,192,013)	138,472,429
NONOPERATING REVENUES (EXPENSES)					
Contributions from Commonwealth of Puerto Rico	-	-	49,000,000	-	-
Contributions to Cooperative Development Investment Fund and other	(3,157,724)	(1,158,864)	(4,344,129)	(3,458,004)	(4,383,699)
Total nonoperating revenues (expenses)	(3,157,724)	(1,158,864)	44,655,871	(3,458,004)	(4,383,699)
INCOME (LOSS) BEFORE TRANSFERS AND SPECIAL ITEMS	23,864,912	38,630,101	117,721,916	(14,650,017)	134,088,730
TRANSFERS IN	1,023,661	36,573,595	109,358,048	8,819,402	27,597,448
TRANSFERS OUT	(1,133,854)	(1,015,964)	(104,455,886)	(2,210,392)	(23,362,595)
SPECIAL ITEMS					
Early retirement program	-	-	-	-	(40,242,716)
Contribution from Puerto Rico Infrastructure Financing Authority	554,707	-	1,109,641	154,221,814	-
CHANGE IN NET ASSETS	24,309,426	74,187,732	123,733,719	146,180,807	98,080,867
NET ASSETS – Beginning of year/period	2,545,540,359	2,421,806,640	2,421,806,640	2,275,625,833	2,177,544,966
NET ASSETS – End of year/period	$ 2,569,849,782	$ 2,495,994,372	$ 2,545,540,359	$ 2,421,806,640	$ 2,275,625,833

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, 2010, 2009 and 2008 and for the six months ended December 31, 2010 and 2009, excluding its subsidiaries. The Schedule of Revenues, Expenses and Changes in Net Assets for Government Development Bank's Operating Fund provides in more detail information with respect to the business-type activities of Government Development Bank as a stand alone entity (excluding its subsidiaries). The information set forth in the table below for fiscal years 2010, 2009 and 2008 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 Government Development Bank's fiscal year 2010, 2009 and 2008 audited financial statements. Information regarding the six months ended December 31, 2010 and 2009 was derived from Government Development Bank's accounting records.

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	For this six months ended December 31, 2010	2009	For the year ended June 30, 2010	2009	2008
OPERATING REVENUES					
Investment income					
Interest income on federal funds sold	$ 839,661	$ 1,066,064	$ 1,662,078	$ 2,902,988	$ 47,676,634
Interest income on deposits placed with banks	103,094	770,598	933,844	9,284,246	80,310,347
Interest and dividend income on investments and investment contracts	17,295,663	19,905,708	36,873,050	85,829,640	66,781,549
Net increase (decrease) in fair value of investments	8,973,607	6,121,522	16,828,350	(938,833)	4,202,069
Total investment income	27,212,025	27,863,892	56,297,322	97,078,041	198,970,599
Interest income on loans receivable					
Public sector	190,244,364	144,885,627	326,438,248	235,481,248	254,192,208
Private sector	116,343	513	1,596	-	-
Total interest income on loans receivable	190,360,707	144,886,140	326,439,844	235,481,248	254,192,208
Total investment income and interest income on loans receivable	217,572,732	172,750,032	382,737,166	332,559,289	453,162,807
Noninterest income					
Fiscal agency fees	2,708,808	2,326,487	17,226,656	10,949,657	20,210,134
Commitment, guarantee and other service fees	3,570,751	3,678,043	5,565,924	3,707,979	4,811,842
Net gain on sale of real estate available for sale	-	-	-	-	4,296,557
Other income	254,232	354,226	725,580	303,745	6,440,139
Total noninterest income	6,533,791	6,358,756	23,518,160	14,961,381	35,758,672
Total operating revenues	224,106,523	179,108,788	406,255,326	347,520,670	488,921,479
OPERATING EXPENSES					
Interest expense:					
Deposits	48,101,820	61,549,095	110,980,998	165,773,611	229,712,412
Securities sold under agreements to repurchase	9,305,624	13,072,236	25,000,086	30,635,161	23,917,723
Commercial paper	12,000	12,001	24,001	21,757	10,678,317
Certificates of indebtedness	16,003	20,116	27,030	240,556	487,903
Bonds and notes payable	129,110,826	60,973,358	151,017,060	79,528,858	75,839,338
Total interest expense	186,546,273	135,626,806	287,049,175	276,199,943	340,635,693
Noninterest expenses					
Salaries and fringe benefits	14,524,712	10,532,482	25,322,708	24,270,730	25,484,675
Depreciation and amortization	1,076,051	1,140,186	1,692,837	1,801,865	1,579,553
Occupancy and equipment costs	1,511,783	1,046,786	3,828,115	4,074,422	4,153,774
Legal and professional fees	4,498,458	866,543	3,459,935	2,559,363	2,952,187
Office and administrative	163,316	198,275	320,602	372,036	683,547
Other	891,800	10,117,989	17,031,948	6,055,267	3,546,037
Total noninterest expenses	22,666,120	23,902,261	51,656,145	39,133,683	38,399,773
Total operating expenses	209,212,393	159,529,067	338,705,320	315,333,626	379,035,466
OPERATING INCOME	14,894,130	19,579,721	67,550,006	32,187,044	109,886,013
NONOPERATING EXPENSES - Contributions to Cooperative Development Investment Fund and other	(3,149,419)	(1,151,070)	(4,148,303)	(3,458,004)	(2,658,483)
SPECIAL ITEMS					
Early retirement program	-	-	-	-	(31,405,694)
Contributions from Puerto Rico Infrastructure Financing Authority	554,707	-	1,109,641	154,221,814	-
TRANSFER OUT	(100,000)	(100,000)	(100,000)	(100,000)	-
CHANGE IN NET ASSETS	12,199,418	18,328,651	64,411,344	182,850,854	75,821,836
NET ASSETS – Beginning of year/period	1,704,275,135	1,639,863,791	1,639,863,791	1,457,012,937	1,381,191,101
NET ASSETS – End of year/period	$ 1,716,474,553	$ 1,658,192,442	$ 1,704,275,135	$ 1,639,863,791	$ 1,457,012,937

Capitalization. The following table sets forth the Notes, bonds and net assets of Government Development Bank (excluding its subsidiaries) as of December 31, 2010 and as adjusted to reflect (i) the 2011 Series A Notes issued on March 2, 2011, and the issuance of the 2011 Series B Notes; and (ii) the redemption of $400,000,000 principal amount of certain other outstanding Notes with a portion of the proceeds of the 2011 Series B Notes.

	December 31, 2010	As Adjusted
	(In thousands)	
Notes and Bonds		
Bonds and Notes	$ 4,859,188	$ 4,459,188
2011 Series A Notes	-	70,000
2011 Series B Notes	-	650,000
Total Notes and Bonds	$ 4,859,188	$ 5,179,188
Net Assets		
Invested in capital assets	11,808	11,808
Unrestricted	1,704,667	1,704,667
Total net assets	$ 1,716,475	$ 1,716,475

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

	For the six months ended December 31,		For the year ended June 30,		
	2010	2009	2010	2009	2008
Average interest rate earned	3.24%	2.88%	3.13%	3.28%	5.00%
Average interest rate paid	3.12	2.53	2.66	2.98	4.29
Spread	0.12%	0.35%	0.47%	0.30%	0.71%

Liquidity and Sources of Funding. As of December 31, 2010, approximately $4.9 billion, or 37%, of Government Development Bank's assets (excluding its subsidiaries) consisted of cash and due from banks, money market instruments and investment securities. At December 31, 2010, $4.8 billion, or 97%, of the investment securities were classified among the three highest rating categories. Based on contractual maturities, approximately $3.4 billion, or 69%, of the investment portfolio matures in 180 days or less. Of the $4.9 billion in the investment portfolio, approximately $811 million was pledged to secure borrowings of Government Development Bank.

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

	As of December 31,				As of June 30,					
	2010		2009		2010		2009		2008	
					(amounts in millions)					
Funding Source	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Public Funds:										
Demand Deposits	$ 3,359	29.33	$ 3,151	28.50	$ 3,331	29.21	$ 3,250	28.84	$ 2,781	29.78
Certificates of Deposit	2,358	20.59	3,315	29.99	3,263	28.61	4,596	40.78	4,373	46.84
Commercial Paper	0	0.00	0	0.00	0	0.00	0	0.00	1	0.01
Private Deposits	169	1.48	532	4.81	393	3.45	492	4.36	539	5.77
Bonds and Notes	4,859	42.43	3,279	29.66	3,358	29.47	2,073	18.40	956	10.24
Repurchase Agreements	707	6.17	778	7.04	1,059	9.29	859	7.62	687	7.36
Total	$ 11,452	100.00	$ 11,055	100.00	$ 11,404	100.00	$ 11,270	100.00	$ 9,337	100.00

Special Capital and Income Contributions. Act No. 82 of June 16, 2002 ("Act No. 82") amended Government Development Bank's Charter to authorize Government Development 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 million. Government Development Bank is not required by Act No. 82 to transfer any funds. Government Development Bank made payments to the General Fund of $11.6 million for fiscal year 2003 and $18.4 million for fiscal year 2004. Government Development 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 Government Development Bank's investment portfolio (excluding its subsidiaries) at December 31, 2010 and 2009, and at June 30, 2010, 2009 and 2008, by instrument and contractual maturity. As of December 31, 2010 the expected average life of its investment portfolio was 2.5 years and approximately 69% of the investment portfolio had an average life of less than one year. At June 30, 2010, 2009 and 2008, Government Development Bank's investment portfolio (excluding its subsidiaries) was $5.9 billion, $6.0 billion and $5.2 billion, respectively. At December 31, 2010 and 2009, Government Development Bank's investment portfolio (excluding its subsidiaries) was $4.9 billion and $5.3 billion, respectively.

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

	As of December 31,				As of June 30,					
	2010		2009		2010		2009		2008	
					(amounts in millions)					
Instrument	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
U.S. Government and Sponsored Agency Securities[1]	$ 1,579	31.98	$ 961	18.22	$ 1,672	28.43	$ 962	16.10	$ 765	14.67
Money Market[2]	2,822	57.16	3,867	73.34	3,677	62.53	4,574	76.56	3,814	73.16
Non-Participating Investment Contracts	188	3.81	176	3.34	182	3.09	170	2.85	189	3.63
Other[3]	348	7.05	269	5.10	350	5.95	268	4.49	445	8.54
Total	$ 4,937	100.00	$ 5,273	100.00	$ 5,881	100.00	$ 5,974	100.00	$ 5,213	100.00

(1) Includes U.S. Treasury Bonds and Notes, U.S. agencies and collateralized obligations.

(2) Includes Federal Funds, certificates of deposit and time deposits.

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

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

	As of December 31,				As of June 30,					
	2010		2009		2010		2009		2008	
					(amounts in millions)					
Maturity[1]	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Less than one year	$ 3,415	69.17	$ 4,433	84.07	$ 5,167	87.86	$ 5,072	84.90	$ 3,925	75.29
More than one but less than 5 years	766	15.52	257	4.87	106	1.80	306	5.12	409	7.85
More than 5 years	756	15.31	583	11.06	608	10.34	596	9.98	879	16.86
Total	$ 4,937	100.00	$ 5,273	100.00	$ 5,881	100.00	$ 5,974	100.00	$ 5,213	100.00

(1) The information presented is based on contractual maturities. Actual or expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

Hedging and Derivatives. Government Development Bank's policy does not allow the use of derivatives for speculative trading purposes or for off-balance sheet leveraged transactions. Government Development Bank uses derivatives in its asset and liability management activities, which include hedging activities.

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Loans to the Commonwealth, its Public Corporations and Municipalities

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

Name of Borrower	Outstanding Principal Amount (in thousands)	Sources of Repayment
Departments and Agencies		
Department of the Treasury	$ 1,024,897	Legislative appropriations; Dedicated Sales Tax Fund; and proceeds of Commonwealth general obligation bonds and proceeds of other bond issues
Department of Health	260,337	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)
Municipal Revenues Collection Center	182,327	General Fund subsidy to the Municipalities and Operational Fund; Income from Municipalities
Emergency Fund (OMB)	117,524	Legislative appropriations – General Fund
Department of Education	114,907	Legislative appropriations; proceeds of Commonwealth general obligation bonds; and Dedicated Sales Tax Fund
Agricultural Business Development Administration	102,986	Legislative appropriations; Dedicated Sales Tax Fund and operating revenues
Department of Transportation and Public Works	79,644	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Department of Agriculture	64,306	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Medical Services Administration	60,888	Legislative appropriations – General Fund
Department of Justice	53,042	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Puerto Rico Police Department	51,686	Legislative appropriations – General Fund
Housing Department	35,300	Operating revenues and sales of properties
Puerto Rico Court Administration	21,584	Operating revenues
Public Corporations		
Highway and Transportation Authority	1,126,688	Proceeds of bond issues and operating revenues
Aqueduct and Sewer Authority	888,600	Proceeds of bond issues and operating revenues
Tourism Development Fund	393,383	Operating revenues and proceeds of bond issues
Special Communities Perpetual Fund Trust	368,356	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Public Buildings Authority	254,380	Legislative appropriations; Dedicated Sales Tax Fund; proceeds of bond issues and operating revenues
Port of the Americas Authority[1]	209,220	Proceeds of bond issues
Convention Center District Authority	147,782	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Ports Authority	146,025	Operating revenues and property sales
Industrial Development Company	89,075	Legislative appropriations; Dedicated Sales Tax Fund and operating revenues
Solid Waste Authority	67,307	Legislative appropriations; and proceeds of Commonwealth general obligation bonds
Housing Finance Authority	66,704	Legislative appropriations; proceeds of Commonwealth general obligation bonds; FEMA and operating revenues
Puerto Rico Industrial, Educational, Medical and Environmental Control Facilities Financing Authority	59,228	Operating revenues
Industrial Fund for Agricultural Development	45,221	Operating revenues
University of Puerto Rico	37,994	Legislative appropriations; and proceeds of bond issues and proceeds of Commonwealth general obligations bonds

[1] The entire amount of debt is the outstanding principal amount of bonds held by Government Development Bank.

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

Source of Repayment	Outstanding Principal Amount as of December 31, 2010 (in millions)
Public Improvements Fund, Dedicated Sales Tax Fund, Legislative Appropriations and/or Proceeds of Commonwealth Bond Issues	$ 2,148.7
Proceeds of Bond Issues (other than proceeds of Commonwealth general obligation bonds)	1,884.5
Operating Revenues of the respective borrowers (including proceeds generated through the sale of assets and/or operations)	1,695.5
Municipalities	1,610.5
Total	$ 7,340.2

Act No. 164 of 2001, as amended ("Act No. 164"), prohibits Government Development 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 million (this amount is reduced to $100 million after June 30, 2011) as long as, among other things, Government Development 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.

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 Government Development Bank for capital improvements and operating needs. As of December 31, 2010, the outstanding principal balance of Government Development Bank loans to the Commonwealth was $1.03 billion and of other loans to agencies and instrumentalities of the Commonwealth was $1.37 billion, for a total of $2.40 billion.

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

Treasury Department. The Commonwealth, through the Treasury Department, is authorized to borrow funds from Government Development Bank. As of December 31, 2010, the aggregate outstanding principal amount of all Government Development Bank loans made to the Treasury Department was $1.03 billion.

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 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 2010. Along with other loans to finance operational expenses of the Medical Services Administration, as of December 31, 2010, the Department of Health had $260.3 million in loans outstanding with Government Development Bank.

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 Government Development 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 December 31, 2010, the balance in the Emergency Fund was approximately $514,000, and Government Development Bank had an outstanding loan to the Emergency Fund of $117.5 million.

Department of Education. The Department of Education is responsible for the planning, structuring and administration of the Commonwealth'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 December 31, 2010, outstanding indebtedness to Government Development Bank was approximately $114.9 million.

Agricultural Business Development Administration. The Agricultural Business Development 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 December 31, 2010, the Administration had $103.0 million of indebtedness outstanding with Government Development Bank.

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 December 31, 2010, outstanding indebtedness to Government Development Bank was approximately $79.6 million.

Department of Agriculture. The Department of Agriculture is engaged in providing loans to farmers and in building and leasing commercial buildings. As of December 31, 2010, outstanding indebtedness to Government Development Bank was approximately $64.3 million.

Other agencies and instrumentalities of the Commonwealth not described above were also considered in the total of $2.40 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. Government Development 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 Government Development Bank, from loans provided by sources other than Government Development Bank, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from Government Development Bank to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. As of December 31, 2010, the principal amount of loans outstanding to public corporations (including loans to Government Development Bank's subsidiaries) was approximately $3.8 billion.

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

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 Commonwealth grants.

The Highways and Transportation Authority reported a net operating loss of $445.3 million for fiscal year 2010, compared to net operating losses of $492.0 million and $448.7 million for fiscal years 2009 and 2008, respectively. As of December 31, 2010, the Highways and Transportation Authority's total debt was $7.3 billion, including $1.1 billion from Government Development Bank financings.

During the calendar year 2008, Government Development Bank approved three lines of credit to the Highways and Transportation Authority in the aggregate amount of $302 million to finance its capital improvement program and to pay its operational and payroll expenses, which lines were fully drawn as of December 31, 2010. During the calendar year 2009, Government Development Bank approved various financings to the Highways and Transportation Authority in the aggregate amount of $646.9 million to (i) provide emergency liquidity for the payment of amounts due to its suppliers and service providers, (ii) refinance debt used for capital improvements, (iii) finance its capital improvement program and projects qualified under the American Reinvestment and Recovery Act (ARRA) and the Federal Highway Administration, and (iv) pay operational expenses, which lines had an aggregate outstanding principal balance of $646.8 million as of December 31, 2010.

In 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 Funding Bonds, Series H, as authorized under Resolution No. 68-18 and Resolution No. 98-06, respectively, and certain supplemental resolution adopted in April 2003. These bonds were reoffered at par value. Additionally during the calendar year 2010, Government Development Bank approved four lines of credit, including a revolving line, and an increase to one of the lines of credit to the Highways and Transportation Authority in the aggregate amount of $312.8 million to (i) refund existing debt, (ii) finance its capital improvement program and collateral postings on swap transactions, and (iii) pay operational expenses and settlement agreements with private contractors, which lines had an aggregate outstanding principal balance of $177.5 million as of December 31, 2010. One of these lines of credit was increased after December 2010.

The Highways and Transportation Authority's Highway Revenue Bonds are rated A2 and BBB+ by Moody's and S&P, respectively. Its Senior Transportation Revenue Bonds are rated A3 and BBB by Moody's and S&P, respectively.

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.

The Highways and Transportation Authority has a mass transit system, known as Tren Urbano (Urban Train), serving 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 Tren Urbano was $2.4 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 operation of Tren Urbano generated a loss of $51.7 million, $64.5 million and $62.5 million in fiscal years 2010, 2009, and 2008, respectively.

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.

During the second quarter of fiscal year 2011, the Highways and Transportation Authority and the Public-Private Partnerships Authority commenced a procurement process intended to lead to the establishment of a concession agreement for the operation of two toll roads, i.e., PR-22 and PR-5. Future procurement processes will lead to the establishment of concession agreements for the principal toll roads in Puerto Rico.

<u>Aqueduct and Sewer Authority</u>. 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 58% of the Commonwealth's population, respectively.

PRASA reported an operating loss of $58.3 million for fiscal year 2010, compared to operating losses of $63.7 million and $101.2 million for fiscal years 2009 and 2008, respectively. The total debt of PRASA was $3.5 billion as of December 31, 2010, including approximately $888.6 million of outstanding indebtedness with Government Development Bank.

PRASA's senior debt is rated Baa1, BBB- and BBB by Moody's, S&P, and Fitch Ratings ("Fitch"), respectively. On November 9, 2010, Moody's affirmed PRASA's rating but revised its outlook to negative from stable to reflect PRASA's continued reliance on Government Development Bank and the Commonwealth for financial support, as well as the operational challenges it faces to reduce the significant amount of water lost through the Systems.

The Commonwealth guarantees the principal and interest payments on the outstanding Revenue Refunding Bonds, 2008 Series A and 2008 Series B, on any bonds issued on or before June 30, 2015 to the Rural Utilities Service of the United States Department of Agriculture, and on the loans granted on or before June 30, 2015 by the Puerto Rico Water Pollution Control Revolving Fund and the Puerto Rico Safe Drinking Water Revolving Fund to PRASA. In the event that PRASA is unable to make all or any portion of the future debt service payments on these guaranteed debts, the Commonwealth will be responsible for covering such payments.

During fiscal year 2011, PRASA received a $105 million assignment from the OMB in Commonwealth appropriations and other Commonwealth available funds. According to the provisions of PRASA's trust agreement, these moneys are taken into account for purposes of determining its revenues and its compliance with certain covenants therein.

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 $341.6 million, which note financed the cost of the north coast super-aqueduct. 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 needs to make a substantial investment in infrastructure and a major overhaul of its operations to maintain the viability of the Systems, to finance its expansion for new users and to implement remedial measures required by a consent decree between PRASA and the U.S. Environmental Protection Agency (the "EPA") and a settlement agreement with the Puerto Rico Department of Health. Funds for this investment will be provided through a combination of revenues from PRASA, financing transactions, federal grants and other sources. PRASA has established a 15-year capital improvement program with a total investment of $2.2 billion in order to comply with the consent decree and the settlement agreement.

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. Government Development Bank made a special capital contribution to the Special Communities Perpetual Trust of $500 million and provided it with a $500 million non-revolving line of credit. The amounts transferred by Government Development Bank were deposited in two investment accounts held by Government Development Bank for the benefit of the Special Communities Perpetual Trust, of which $888.7 million had been disbursed to the Trust as of December 31, 2010. As of December 31, 2010, the Special Communities Perpetual Trust's line of credit with Government Development Bank had an outstanding balance of $368.4 million. The line of credit is payable from legislative appropriations.

Public Buildings Authority. The 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 December 31, 2010, $3.07 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 December 31, 2010, PBA's line of credit with Government Development Bank had an outstanding balance of $254.4 million.

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. 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, Government Development 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 December 31, 2010, Government Development Bank held approximately $209.2 million of the Port of the Americas Authority's outstanding bonds, which are guaranteed by the Commonwealth.

The first phase of the Port was completed in fiscal year 2004. This initial phase included the improvement of piers 4, 5 and 6 of the Port and the acquisition of heavy equipment at a cost of $40 million. The second phase of the Port was completed during the first quarter of calendar year 2009. This phase, which was designed to provide capacity to handle up to 250,000 Twenty-Foot Equivalent Units

("TEU") per year, included (i) dredging the entrance channel and adjacent areas of the Port to a depth of 50 feet, (ii) reconstructing the container terminals, (iii) commencing certain required environmental risk mitigation procedures, and (iv) preparing final construction schematics.

A third phase, which provides for the expansion of the Port's capacity, was initiated in August 2008. This phase includes, among other improvements, (i) infrastructure improvements related to access roads (ii) relocation of the storm sewer channel (iii) relocation of the sewer, water and power distribution systems, (iv) additional dredging at certain pier locations, (v) the expansion of the container terminal, and (vi) additional mitigation at Coffin Island. The first expansion under this phase will provide sufficient capacity to process 500,000 TEU annually. This phase is expected to be finished in the second half of calendar year 2011.

Convention Center District Authority. The 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 Government Development 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 December 31, 2010 was $447.2 million in outstanding bonds issued in March 2006 to finance the Convention Center and payable from a portion of the Hotel Room Tax. As of December 31, 2010, its outstanding indebtedness to Government Development Bank was approximately $147.8 million from the financing for the Coliseum.

Ports Authority. The 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 December 31, 2010, the Ports Authority had $730.1 million in debt, including approximately $146.0 million from Government Development 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 Government Development Bank.

Industrial Development Company. The 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 December 31, 2010, PRIDCO's total debt was $411.4 million, including approximately $89.1 million from Government Development Bank financings and the outstanding debt of Industrial Investment Corporation, a subsidiary of PRIDCO.

University of Puerto Rico. The University of Puerto Rico (the "University"), with approximately 62,342 students in the first semester of the academic year 2010-2011, 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 December 31, 2010, the University's total debt was $592.3 million, including $38.0 million from

Government Development Bank financing. In addition, the loans to the University's Medical Services Hospital in Carolina, Puerto Rico, had a balance of $19.4 million as of December 31, 2010.

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.

In June 2010, the Board of Trustees of the University approved Certification No. 146 establishing a $400 stabilization fee to be charged each semester to all students in addition to tuition charges and other fees already in place at the University. This stabilization fee was imposed to address the University's fiscal difficulties and is expected to increase annual revenues by approximately $40 million.

On June 26, 2010, the Middle States Commission on Higher Education (the "Commission"), the regional accreditation entity of the eleven units that comprise the University system, placed on probation ten of the University's units for lack of evidence of compliance with two of fourteen accreditation standards. This action was prompted by a student stoppage that interrupted the operations of these units for up to 62 days, but less in most cases. The ten affected units will remain fully accredited while on probation. After a Monitoring Report submitted by the ten affected units in September 2010 and a subsequent evaluation visit, the Commission lifted probation over one of the questioned standards and added an additional standard, thereby continuing the review over two of the fourteen accreditation standards.

A second Monitoring Report was submitted to the Commission by the ten affected units on March 1, 2011 to further substantiate compliance with these two standards. Evaluation visits to the eleven units of the University were conducted between March and April 2011 as a follow up to the probationary process as well as the regular decennial re-accreditation review for some of the units. Following these visits, the evaluation teams reported that they intend to inform the Commission that 95% of all accreditation standards evaluated throughout the system were found in compliance, and significant progress was evidenced in the remaining 5%. The Commission will make its final determination at its June 2011 meeting. The University anticipates that probation will be lifted for all units after said meeting.

Other public corporations and instrumentalities not described above were also considered in the total of $3.8 billion, and include, but are not limited to the following: Infrastructure Finance Authority, Electric Power Authority, 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. Government Development 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 Government Development Bank to the Puerto Rico Municipal Finance Agency, which issues its bonds to acquire such bonds and notes. As of December 31, 2010, approximately $1.6 billion aggregate outstanding principal amount of bonds and notes issued by the municipalities were held by Government Development Bank.

Loans to Private Enterprises

Government Development Bank's loans to the private sector (excluding the lending activities of its subsidiaries, the Housing Finance Authority, the Tourism Development Fund and the Development Fund) are done solely for strategic commercial and industrial ventures. Government Development Bank also provides working capital loans to the private sector. As of December 31, 2010, Government Development Bank has approximately $4.3 million 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 2011 Series B Notes will be issued pursuant to the Indenture. Government Development Bank may issue additional notes thereunder.

The Notes are general, unsecured, senior obligations of Government Development Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of Government Development Bank for borrowed money and with unsecured and unsubordinated Government Development 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 (or premium, if any, on) 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) failure to comply with any other covenant of Government Development Bank set forth in the Indenture, and continuance of such default for a period of 90 days after written notice has been given, by registered or certified mail, to Government Development Bank by the Trustee or to Government Development Bank and the Trustee by the holders of at least 25% in principal amount of the outstanding Notes specifying such default and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Indenture;

(e) default under any evidence of indebtedness for borrowed money of Government Development Bank in excess of $10 million (including the Indenture), 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 Government Development Bank by the Trustee or to Government Development Bank and the Trustee by the holders of at least 25% in principal amount of the outstanding Notes, written notice specifying such default and requiring it to be remedied and requiring Government Development Bank to cause such acceleration to be rescinded or annulled and stating that such notice is a "Notice of Default" under the Indenture; or

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

Acceleration, Rescission and Annulment

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

At any time after such a declaration of acceleration has been made with respect to the Notes of any series, 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 of such series, by written notice to Government Development Bank and the Trustee, may rescind and annul such declaration and its consequences if (i) Government Development Bank has paid or deposited with the Trustee a sum sufficient to pay (1) all overdue installments of interest on the Notes of such series, (2) the principal of (and premium, if any, on) any Notes of such series, which have become due otherwise than by reason of such declaration of acceleration, and interest thereon, to the extent such payment of such interest is lawful, (3) interest upon overdue installments of interest at the rate or rates prescribed therefore by the terms of the Notes of such series, 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 of such series, other than the nonpayment of the principal of the Notes of such series, which have become due solely by reason of such declaration of acceleration, have been cured or waived.

Application of Moneys Collected

Any moneys collected by the Trustee with respect to a series of Notes will be applied in the following order, after payment of all amounts due to the Trustee under the Indenture, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Notes of such series, 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 of such series 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 of such series 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 Notes over any other Notes, ratably, according to the amounts due respectively for principal, interest and premium, if any, 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 Government Development 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) upon which such application is to be made and upon 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 Notes until such Notes will be surrendered to the Trustee for appropriate endorsement, or for cancellation if fully paid.

Waiver of Past Defaults

The holders of not less than a majority in aggregate principal amount of the Notes of any series 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 (i) the payment of principal of (or premium, if any) or interest on any Notes of such series, or in the payment of any sinking or analogous obligation with respect to the Notes of such series, or (ii) a covenant or provision of the Indenture that cannot be amended without the consent of the holder of each outstanding Note of such series. See "Amendments and Supplements to the Indenture" below.

Suits by Holders of Notes

The holders of a majority of the aggregate principal amount of the Notes of any series 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 of such series. No holder of any Notes of any series will have any right to institute any suit, action or proceeding in equity or at law with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy under the Indenture unless:

(i) such holder has previously given to the Trustee written notice of a continuing event of default with respect to Notes of such series;

(ii) the holders of not less than 25% of the aggregate principal amount of the Notes then outstanding of such series have requested of the Trustee in writing, to institute proceedings in respect of such event of default in its own name as Trustee under the Indenture;

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

(iv) the Trustee has failed to institute any such proceeding for 60 days after its receipt of such notice, request and offer of indemnity; 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 of such series. No one or more holders of the Notes of such series 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 of such series 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 equal and proportionate 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 of (and premium, if any) and interest on any Notes after its due date.

Amendments and Supplements to the Indenture

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

(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 provisions 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 holders of the Notes of any series any additional rights, remedies, powers, benefits, authority or security that may lawfully be so assigned or conferred;

(c) to add to the covenants of Government Development Bank, or to surrender any right or power under the Indenture conferred upon Government Development Bank, for the benefit of the holders of the Notes;

(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 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 establish any form of Note, to provide for the issuance of any series of Notes and to set forth the terms thereof;

(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 Notes 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 under the Indenture by more than one trustee;

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

(h) to add any additional events of default in respect of any or all of the series of Notes; or

(i) to provide for the exchange of any series of outstanding Notes for one or more global Notes of the same series registered in the name of DTC or its nominee and which represent and are denominated in an amount equal to the aggregate principal amount of all of the outstanding Notes so exchanged.

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 Notes of each series affected by such amendment or supplement at the time outstanding under the Indenture; provided, however, that without the consent of the holder of each outstanding Note 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 of, any premium on, or any installment of interest on, any Note, or a reduction in the principal amount thereof or the interest or any premium thereon, or a change in the method of computing the amount of principal thereof or interest thereon or a change in any place of payment where, or the coin or currency in which, any security or any premium or interest thereon is payable, or a change in the coin or currency in which any Note is denominated, or an impairment of the right to institute suit for the enforcement of any such payment on or after the maturity thereof (or, in the case of redemption or repayment, on or after the redemption date or the repayment date, as the case may be); or

(b) a reduction in the percentage in principal amount of outstanding Notes of any series required to consent to any supplemental indenture, any waiver of compliance with certain provisions of the Indenture or certain defaults and their consequences provided for in the Indenture; or

(c) a modification of any of the provisions of this paragraph, the provisions with respect waiver of past defaults or the provisions with respect waiver of Government Development Bank's requirement to comply with certain covenants under the Indenture, except to increase any such percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of the holders of each outstanding Note affected thereby.

The Trustee may, but is not obligated to, execute any proposed supplement or amendment if its rights, duties or immunities would be affected thereby.

Defeasance

Government Development Bank's obligations under the Indenture with respect to any series of Notes will be deemed to have been discharged upon satisfaction of the conditions set forth below:

(a) Government Development Bank shall have deposited or caused to be deposited irrevocably with the Trustee as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Notes of such series (i) money in an amount, or (ii) Defeasance Obligations (as defined in the Indenture) which through the payment of interest and principal in respect thereof in accordance with their terms, without reinvestment thereof, will provide, not later than one day before the due date of any payment, money in an amount or (iii) a combination of (i) and (ii), sufficient to pay and discharge each installment of principal of, premium, if any, and interest on and any repurchase obligations with respect to the outstanding Notes of such series on the dates such installments of interest or principal or repurchase obligations are due;

(b) no event of default or event (including such deposit) which with notice or lapse of time would become an event of default with respect to the Notes of such series shall have occurred and be continuing on the date of such deposit; and

(c) Government Development Bank shall have delivered to the Trustee an opinion of counsel to the effect that holders of the Notes of such series will not recognize income, gain or loss for Puerto Rico income tax purposes as a result of Government Development Bank's exercise of its option under this paragraph and will be subject to Puerto Rico income tax on the same amount and in the same manner and at the same time as would have been the case if such option had not been exercised.

Additional Debt Securities

In addition to the 2011 Series B Notes being offered pursuant to this Official Statement, Government Development Bank may authorize from time to time the issuance of additional Notes under the Indenture or otherwise incur additional indebtedness. Such additional Notes or other indebtedness may rank equally with the 2011 Series B Notes 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 Notes are issued.

Certain Rights of the Trustee

In the Indenture, Government Development Bank has agreed:

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

(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 administration or acceptance of the trust under 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 under the Indenture.

The Trustee has reserved the right to charge additional reasonable fees for additional services not contemplated in the Indenture as well as extraordinary services upon the occurrence and during the continuance of an event of default. Such additional fees will be reasonable and calculated based on the costs and expenses incurred by the Trustee. If Government Development Bank fails to make such payments, the Trustee may, but shall be under no obligation to, make such payment from any moneys in its possession under the Indenture.

As security for the performance of the obligations of Government Development Bank described in the preceding paragraphs, 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, the Trustee:

(i) may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, bond, debenture 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) may consult with counsel and the advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it under the Indenture in good faith and in reliance thereon;

(iii) shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays and counsel fees and other reasonable disbursements, and against all liability. If Government Development Bank fails to make such reimbursement or indemnification, the Trustee may reimburse or indemnify itself from any moneys in its possession under the Indenture and shall be entitled to preference over any Notes outstanding under the Indenture;

(iv) shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note, bond, debenture 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 Government Development Bank personally or by agent or attorney; and

(v) may execute any of its trusts or powers under the Indenture to perform any duties under the Indenture 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 under the Indenture.

TAX MATTERS

Puerto Rico Tax Considerations

This section does not purport to cover all of the Puerto Rico tax consequences arising from the purchase and ownership of the 2011 Series B 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 2011 Series B 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 federal, foreign, state or other laws.

The following summary, provided by McConnell Valdés LLC, acting as Special Puerto Rico Tax Counsel, of certain Puerto Rico income tax consequences of the ownership and disposition of the 2011 Series B Notes is based upon laws of the Commonwealth now in effect:

1. Interest on the 2011 Series B Notes is exempt from Puerto Rico income and withholding taxes pursuant to Section 1031.02(a)(3)(B) of the Internal Revenue Code for a New Puerto Rico, as amended (the "2011 Code"), including the alternative minimum tax imposed by Section 1022.03 of the 2011 Code;

2. The 2011 Series B 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 2011 Series B Notes by (i) gift will not be subject to gift tax under the 2011 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 2011 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 2011 Series B Note will be subject to income tax under the 2011 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 the Commonwealth;

5. The 2011 Series B Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1034.04(f)(2)(A) of the 2011 Code applicable to certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1022.05(g) of the 2011 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 2011 Series B 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 2011 Series B Notes with "eligible funds," as such term is defined in the Acts.

Prospective owners of the 2011 Series B Notes, including but not limited to financial institutions, should be aware that ownership of the 2011 Series B Notes may result in having a portion of their interest and other expenses attributable to interest on the 2011 Series B 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

The following summary, provided by Squire, Sanders & Dempsey (US) LLP, of certain United States federal income tax consequences of the ownership and disposition of the 2011 Series B Notes is based upon laws now in effect. The discussion is limited to 2011 Series B Notes held as capital assets and does not purport to address interest or gain on 2011 Series B Notes that is effectively connected with a Puerto Rico trade or business. Prospective purchasers of 2011 Series B Notes should consult their tax advisors regarding pending or proposed legislation and court proceedings, and prospective purchasers of 2011 Series B Notes at other than their original issuance at the respective prices indicated on the inside cover of this Official Statement should also consult their tax advisors regarding other tax considerations such as the consequences of market discount, which are not addressed herein.

As used herein, the term "Puerto Rico Individuals" means individuals who are bona fide residents of Puerto Rico within the meaning of Section 937 of the United States Internal Revenue Code of 1986, as amended ("U.S. Code"), during the entire taxable year, including the taxable year in which the 2011 Series B Notes are acquired. "Puerto Rico Corporations" means corporations organized under the laws of the Commonwealth.

The term "U.S. Owners" generally means beneficial owners of 2011 Series B Notes that for United States federal income tax purposes are individual citizens or residents of the United States, corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), and certain estates or trusts with specific connections to the United States. Such term does not include Puerto Rico Individuals or Puerto Rico Corporations. "Non-U.S. Owners" means beneficial owners of 2011 Series B Notes that are not U.S. owners, Puerto Rico Individuals or Puerto Rico Corporations.

If a partnership (including an entity classified as a partnership for U.S. federal income tax purposes) holds 2011 Series B Notes, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Partnerships holding 2011 Series B Notes, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of investment in 2011 Series B Notes (including their status as U.S. Owners).

Puerto Rico Individuals and Puerto Rico Corporations

Interest on 2011 Series B Notes

Interest paid or accrued on 2011 Series B Notes to Puerto Rico Individuals will constitute gross income from sources within Puerto Rico and, therefore, will not be included in gross income and will be exempt from U.S. federal income taxation pursuant to Section 933(1) of the U.S. Code. 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 Individual's gross income.

Interest paid or accrued on 2011 Series B Notes to Puerto Rico Corporations will not be subject to income taxation under the U.S. Code provided that such interest 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.

Disposition of 2011 Series B Notes

In general, pursuant to the provisions of Section 1.937-2 of the Treasury Regulations issued under the U.S. Code, the source of the income from the disposition of personal property by Puerto Rico Individuals will be determined under the rules of Section 865 of the U.S. Code. Accordingly, gain on the sale or exchange of 2011 Series B Notes that is recognized by Puerto Rico Individuals will constitute Puerto Rico source income and, therefore, qualify for the income exclusion under Section 933(1) of the U.S. Code.

Puerto Rico Corporations generally will not be subject to income or withholding tax under the U.S. Code on gain recognized on the sale or exchange of 2011 Series B Notes, unless the gain is effectively connected with the conduct by the Puerto Rico Corporation of a trade or business in the United States and other requirements are satisfied.

U.S. Owners

INTEREST ON 2011 SERIES B NOTES IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. THE LEGAL DEFEASANCE OF 2011 SERIES B NOTES MAY RESULT IN A DEEMED SALE OR EXCHANGE OF THE 2011 SERIES B NOTES UNDER CERTAIN CIRCUMSTANCES; OWNERS OF THE 2011 SERIES B NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL INCOME TAX CONSEQUENCES OF SUCH AN EVENT. PROSPECTIVE PURCHASERS OF 2011 SERIES B NOTES SHOULD CONSULT THEIR TAX ADVISORS AS TO THE FEDERAL, STATE AND LOCAL, AND FOREIGN TAX CONSEQUENCES OF THEIR ACQUISITION, OWNERSHIP AND DISPOSITION OF 2011 SERIES B NOTES.

Disposition of 2011 Series B Notes

Upon the sale, exchange or retirement of 2011 Series B Notes, 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 2011 Series B Notes. A U.S. Holder's tax basis in 2011 Series B Notes will generally equal such U.S. Holder's initial investment in the 2011 Series B Notes (subject to the above discussion of original issue discount or premium). Such gain or loss generally will be long-term capital gain or loss if the 2011 Series B Notes have been held by the U.S. Holder at the time of disposition for more than one year.

Backup Withholding

General information reporting requirements will apply to payments of principal and interest made on 2011 Series B Notes and the proceeds of the sale of 2011 Series B Notes to non-corporate owners of the 2011 Series B Notes, and "backup withholding" at a rate of 28% will apply to such payments if the owner fails to provide an accurate taxpayer identification number in the manner required or fails to report all interest required to be shown on its federal income tax returns. A beneficial owner of 2011 Series B Notes that is a U.S. Owner generally can obtain complete exemption from backup withholding by providing a properly completed IRS Form W-9 (Request for Taxpayer Identification Number and Certification).

State and Local Income Taxation

Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, the 2011 Series B Notes and the interest thereon are exempt from state and local income taxation.

Non-U.S. Owners

Except as provided below, a Non-U.S. Owner holding 2011 Series B Notes will not be subject to United States federal income taxes on payments of interest or premium, if any, on 2011 Series B Notes, provided that (i) such Non-U.S. Owner is not a controlled foreign corporation related to Government Development Bank and is not a bank receiving interest described in Section 881(c)(3)(A) of the U.S. Code; (ii) the interest is not effectively connected with the conduct by the Non-U.S. Owner of a U.S. trade or business; and (iii) the Non-U.S. Owner either (a) provides its name and address on an IRS Form W-8BEN (or other applicable form) and certifies, under penalties of perjury, that it is not a United States person as defined under the U.S. Code, or (b) it holds its 2011 Series B Notes through certain foreign intermediaries and satisfies the certification requirements of the applicable United States Treasury regulations.

Generally, a Non-U.S. Owner will not be subject to U.S. federal income taxes on any amount that constitutes capital gain upon sale, exchange or retirement of 2011 Series B Notes, unless such Non-U.S. Owner is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and such gain is derived from sources within the United States. Certain other exceptions may be applicable, and a Non-U.S. Owner should consult its tax advisor in this regard.

A Non-U.S. Owner of 2011 Series B Notes whose income with respect to its investment in the 2011 Series B Notes is effectively connected with the conduct of a U.S. trade or business will generally be taxed as if the owner was a U.S. Owner (and, if such Non-U.S. Owner of 2011 Series B Notes is a corporation, possibly subject to a 30% branch profits tax) provided the owner provides to Government Development Bank or other withholding agent an IRS Form W-8ECI.

Recently enacted legislation may impose withholding taxes on certain types of payments made to "foreign financial institutions" and certain non-U.S. entities. Under this legislation, the failure to comply with additional certification, information reporting and other specified requirements could result in withholding tax being imposed on payments of interest and sales proceeds to foreign intermediaries and certain other Non-U.S. Owners with respect to 2011 Series B Notes. Subject to a grandfathering provision that exempts payments on, and the gross proceeds from the disposition of, obligations that are outstanding on March 18, 2012, the legislation would apply to payments made after December 31, 2012. Prospective owners of 2011 Series B Notes should consult their tax advisors regarding this legislation and subsequent guidance provided by the Internal Revenue Service pertaining to such legislation.

Circular 230

THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS NOT INTENDED OR WRITTEN BY BOND COUNSEL TO BE USED, AND IT CANNOT BE USED, FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON AN OWNER OF 2011 SERIES B NOTES. THE FOREGOING DISCUSSION IN "TAX MATTERS" WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE 2011 SERIES B NOTES. EACH PROSPECTIVE PURCHASER OF 2011 SERIES B NOTES SHOULD SEEK ADVICE BASED ON THE PROSPECTIVE PURCHASER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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 2011 Series B 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 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 Section 3(14) of ERISA, or a "disqualified person" within the meaning of Section 4975(e)(2) 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"). In that case, a "prohibited transaction" within the meaning of Section 406 of ERISA or Section 4975(c) of the U.S. Code could arise, for example, if the 2011 Series B 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 2011 Series B Notes are acquired pursuant to an exemption from the prohibited transaction rules. If a non-exempt prohibited transaction does occur, it could result in the transaction being voided or rescinded, as well as excise tax or other monetary penalties and liabilities under ERISA and/or Section 4975 of the U.S. Code.

Under ERISA and various prohibited transaction class exemptions ("PTCEs") issued by the U.S. Department of Labor, exemptive relief may be available for a potential direct or indirect prohibited transaction that may occur from a purchase, holding or disposition of the 2011 Series B 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 Section 408(b)(17) of ERISA and 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 2011 Series B 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 2011 Series B Notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase of the 2011 Series B 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 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 the prohibited transaction rules and the penalties that may be imposed upon persons involved in non exempt prohibited transactions, it is particularly important that fiduciaries of Plans or other persons considering purchasing the 2011 Series B Notes on behalf of or with "plan assets" of any Plan consult with their counsel regarding the prohibited transaction rules.

Purchasers of the 2011 Series B Notes have exclusive responsibility for ensuring that their purchase of the 2011 Series B 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.

RATINGS

The 2011 Series B Notes have received a rating of "BBB" by S&P and "A3" by Moody's. 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 agencies were provided with materials relating to Government Development Bank and the 2011 Series B 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 2011 Series B Notes.

There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by the rating agencies if circumstances so warrant. Any such downward revision or withdrawal of either such rating may have an adverse effect on the market prices of the 2011 Series B Notes.

UNDERWRITING

The underwriters have jointly and severally agreed, subject to certain conditions, to purchase the 2011 Series B Notes from Government Development Bank at an aggregate discount of $3,025,913.33 from the initial offering prices of the 2011 Series B 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 2011 Series B Notes, if any such notes are purchased. The underwriters may offer to sell the 2011 Series B 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.

The underwriters and their respective affiliates are financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Commonwealth and/or its instrumentalities, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Commonwealth and/or its instrumentalities.

Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill") and Santander Securities Corporation ("SSC"), each an underwriter of the 2011 Series B Notes, 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 2011 Series B Notes as consideration for their professional services.

Citigroup Inc. and Morgan Stanley, the respective parent companies of Citigroup Global Markets Inc. ("Citigroup") and Morgan Stanley & Co. Incorporated ("Morgan Stanley"), each an underwriter of the 2011 Series B Notes, have entered into a retail brokerage joint venture. As part of the joint venture each of Citigroup and Morgan Stanley will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, each of Citigroup and Morgan Stanley will compensate Morgan Stanley Smith Barney LLC for its selling efforts in connection with their respective allocations of Notes.

Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, and Barclays Capital Inc. established a strategic alliance in May of 2009, which enables Pershing LLC to participate as a selling group member and a retail distributor for all new issue municipal bond and note offerings underwritten by Barclays Capital Inc., including the 2011 Series B Notes offered hereby. Pershing LLC will receive a selling concession from Barclays Capital Inc. in connection with its distribution activities relating to the 2011 Series B Notes.

Goldman, Sachs & Co. and UBS Financial Services Incorporated of Puerto Rico have entered into an agreement relating to structuring and coordinating the marketing and execution of bond offerings in the United States and global capital markets for the Commonwealth's governmental entities and other municipal bond issuers. For each issuance of municipal securities for which both parties act as managers, the parties will be entitled to receive a portion of each other's revenues from the underwriting in consideration for their professional services.

J.P. Morgan Securities LLC ("JPMS"), one of the underwriters of the 2011 Series B Notes, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings, including the 2011 Series B Notes, at the original issue prices. Pursuant to the Dealer Agreement, CS&Co. will purchase Notes from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Notes that CS&Co. sells. JPMS has also entered into an agreement with FirstBank Puerto Rico Securities Corp. to assist the Commonwealth, its public corporations, agencies, instrumentalities, and municipalities in structuring and facilitating the issuance of certain municipal securities. Pursuant to the terms of the agreement and in compliance with applicable rules, compensation with respect to the underwriting of such municipal securities will be allocated between the parties.

Popular Securities, Inc. has entered into a joint venture agreement (the "JV Agreement") with Morgan Stanley, under which the parties shall provide services and advice to each other related to the structuring and execution of certain municipal finance transactions in the U.S. capital markets with governmental entities located in the Commonwealth. Pursuant to the terms of the JV Agreement and in compliance with applicable rules, the parties will be entitled to receive a portion of each other's net profits from the underwriting of the 2011 Series B Notes as consideration for their professional services.

BBVAPR División de Valores Municipales ("BBVAPR MSD") and RBC Capital Markets, LLC ("RBC") have entered into an agreement under which the parties provide services and advice to each other to assist the Commonwealth and its issuers in the structuring and execution of their municipal securities offerings. As part of the agreement, BBVAPR MSD and RBC share in the risk from the underwriting of the 2011 Series B Notes as part of the consideration for their professional services.

LEGAL MATTERS

Certain legal matters incident to the authorization, issuance, sale and delivery of the 2011 Series B Notes are subject to the approval of Squire, Sanders & Dempsey (US) LLP, Bond Counsel. The issuance of the 2011 Series B 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 the opinion of McConnell Valdés LLC, as Special Puerto Rico 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, McConnell Valdés LLC, San Juan, Puerto Rico.

LEGAL INVESTMENT

The 2011 Series B 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. In addition, the 2011 Series B Notes will be eligible investments for 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"), Government Development Bank has agreed to the following:

1. To file, within 305 days after the end of each fiscal year, commencing with the fiscal year ending June 30, 2011, 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 of Government Development Bank generally found or incorporated by reference in this Official Statement; and

2. To file in a timely manner, not in excess of ten business days after the occurrence of the event, with the MSRB through EMMA, notice of any of the following events with respect to the 2011 Series B Notes:

   a. principal and interest payment delinquencies;
   b. non-payment related defaults, if material;
   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 tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2011 Series B Notes, or other material events affecting the tax status of the 2011 Series B Notes;
   g. modifications to rights of the holders (including Beneficial Owners) of the 2011 Series B Notes, if material;
   h. bond calls, if material, and tender offers;
   i. defeasances;
   j. release, substitution, or sale of property securing repayment of the 2011 Series B Notes, if material;

k. rating changes;
l. bankruptcy, insolvency, receivership or similar event of Government Development Bank;
m. the consummation of a merger, consolidation, or acquisition involving Government Development Bank or the sale of all or substantially all of the assets of Government Development Bank, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
n. the appointment of a successor or additional trustee, or the change of name of a trustee, if material.

Government Development Bank has also agreed to file in a timely manner with the MSRB through EMMA, notice of a failure to provide the required annual financial information on or before the specified period.

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 2011 Series B Notes do not provide for “debt service reserves” or “liquidity facility providers.” In addition, with respect to the following events:

Events (d) and (e). Government Development Bank does not undertake to provide any notice with respect to credit enhancement added after the initial offering of the 2011 Series B Notes, unless Government Development Bank applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the 2011 Series B Notes, see *Tax Matters* herein.

Event (h). Government Development 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 2011 Series B Notes,* 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 2011 Series B 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 the 2011 Series B Notes.

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

Government Development Bank has made similar continuing disclosure covenants in connection with prior Note issuances and has complied with all such covenants, except as hereinafter noted. Government Development Bank’s financial and operating information for the fiscal year ended June 30, 2007 was filed after the filing deadline of May 1, 2008.

Government Development 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 Government Development Bank, such other events are material with respect to the 2011 Series B Notes, but Government Development Bank does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

Government Development Bank acknowledges that its respective undertakings pursuant to the Rule described above is intended to be for the benefit of the Beneficial Owners of the 2011 Series B 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 Government Development 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 Government Development Bank written notice of any request to cure such breach, and Government Development 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 Government Development 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 2011 Series B 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 Government Development 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 Government Development Bank elects that the Covenants shall be deemed amended accordingly.

Government Development 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

Government Development Bank is involved in various lawsuits arising in the normal course of its business. With respect to pending and threatened litigation, as of December 31, 2010, Government Development Bank has not included in its financial statements any accrued liabilities for awarded and anticipated unfavorable judgments. In the opinion of Government Development Bank and its General Counsel, the ultimate liability of Government Development Bank, if any, would not be significant.

MISCELLANEOUS

The foregoing summaries of or references to the Enabling Act, the 2011 Series B 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 appearing in *Information Concerning Offering Restrictions in Certain Jurisdictions Outside the United States*, in "Book-Entry Only System and Global Clearance Procedures" under *The 2011 Series B Notes* and in *Underwriting* herein, was supplied by certain officials of Government Development Bank or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of Government Development Bank 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 official documents. The information pertaining to DTC, Euroclear and Clearstream, Luxembourg was supplied by DTC, Euroclear and Clearstream, Luxembourg, respectively. The information pertaining to the underwriters and in *Information Concerning Offering Restrictions in Certain Jurisdictions Outside the United States* was supplied by the underwriters.

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

By: /s/ José R. Otero
Name: José R. Otero
Title: Executive Vice President

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Appendix I

BASIC FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION OF GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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Government Development Bank for Puerto Rico

(A Component Unit of the
Commonwealth of Puerto Rico)

Basic Financial Statements and Required
Supplementary Information as of and
for the Year Ended June 30, 2010,
and Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

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

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

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

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

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

The management's discussion and analysis on pages 3 to 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Government Development Bank for Puerto Rico's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

November 5, 2010

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

1. FINANCIAL HIGHLIGHTS

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

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

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

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

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

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

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

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

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

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

2. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

3. GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

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

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

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

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

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

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

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

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

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

4. GOVERNMENTAL FUND RESULTS

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

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

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

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

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

5. BUSINESS-TYPE ACTIVITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) Non-interest Income

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

(d) Non-interest Expenses

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

(e) Special Item

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

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

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

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

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

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

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

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

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

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

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

6. CONTACTING THE BANK'S FINANCIAL MANAGEMENT

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

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

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

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

See notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

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

See notes to basic financial statements.

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

BALANCE SHEET — GOVERNMENTAL FUNDS
AS OF JUNE 30, 2010

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

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

See notes to basic financial statements.

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

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

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

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

See notes to basic financial statements

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

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

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

See notes to basic financial statements.

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

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

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

See notes to basic financial statements.

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

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2010

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

See notes to basic financial statements.

(Concluded)

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

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

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

See notes to basic financial statements.

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

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

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

See notes to basic financial statements.

(Concluded)

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

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

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

See notes to basic financial statements.

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

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

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

See notes to basic financial statements.

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

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

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

See notes to basic financial statements.

(Continued)

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

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

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

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

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

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

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

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

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

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

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

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

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

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Government-Wide and Fund Financial Statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Estimated useful lives are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*, which is effective for periods beginning after June 15, 2011.

- GASB Statement No. 59, *Financial Instruments Omnibus*, which is effective for periods beginning after June 15, 2010.

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

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

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

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

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

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

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

4. INVESTMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

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

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

(1) Excluding loans to component units.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. DUE FROM FEDERAL GOVERNMENT

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

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

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

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

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

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

7. REAL ESTATE AVAILABLE FOR SALE

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

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

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

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

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

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

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

8. CAPITAL ASSETS

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

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

9. DEPOSITS

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

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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

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

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

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

11. CERTIFICATES OF INDEBTEDNESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

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

14. TERMINATION BENEFITS

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

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

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

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

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

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

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

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

16. RETIREMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

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

17. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19. CONTRIBUTION FROM PUERTO RICO INFRASTRUCTURE FINANCING AUTHORITY

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

20. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

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

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

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

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

21. INTERFUND BALANCES AND TRANSFERS

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

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

(Continued)

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

(Continued)

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

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

(Concluded)

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

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

22. FUND BALANCE DEFICIT

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

23. SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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Appendix II

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the 2011 Series B Notes, Squire, Sanders & Dempsey (US) LLP is prepared to render its final opinion with respect to the 2011 Series B Notes in substantially the following form:

___________, 2011

Government Development
Bank for Puerto Rico
San Juan, Puerto Rico

We have served as bond counsel to our client Government Development Bank for Puerto Rico (the "Government Development Bank") and not as counsel to any other person in connection with the issuance by Government Development Bank of its $650,000,000 aggregate principal amount of Senior Notes, 2011 Series B (Taxable) (the "Notes"), dated the date of this letter.

The Notes are issued pursuant to Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, reenacted and supplemented (the "Enabling Act") and a resolution adopted by the Executive Committee of the Board of Directors of Government Development Bank on May 12, 2011 (the "Resolution"). The Notes are secured by that certain Indenture dated February 17, 2006, as supplemented (the "Indenture"), between Government Development Bank and Banco Popular de Puerto Rico, as trustee. Capitalized terms not otherwise defined in this letter are used as defined in the Resolution and the Indenture, as applicable.

In our capacity as bond counsel, we have examined the transcript of proceedings relating to the issuance of the Notes, including the Enabling Act, the Indenture and the Resolution, a copy of the signed and authenticated Note of the first maturity and such other documents, matters and law as we deem necessary to render the opinions set forth in this letter.

Based on that examination and subject to the limitations stated below, we are of the opinion that under existing law:

1. The Enabling Act 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 Notes and the Indenture are valid and binding obligations of Government Development Bank, enforceable in accordance with their respective terms.

4. The Notes are general, unsecured, senior obligations of Government Development Bank, and the principal of, redemption premium, if any, and interest (collectively, "debt service") on the Notes, together with debt service on any other obligations issued and outstanding on a parity with the Notes as provided in the Indenture, are payable from any available funds of Government Development Bank. The Notes shall not be deemed to constitute a debt or obligation of the Commonwealth of Puerto Rico or any of its municipalities or other political subdivisions, other than Government Development Bank, and neither the Commonwealth of Puerto Rico nor any such municipalities or other political subdivisions, other than Government Development Bank, are liable for the payment of debt service on the Notes.

5. The information under the caption "TAX MATTERS – United States Federal Tax Considerations" in the Official Statement, dated May 12, 2011, relating to the Notes, is a fair and accurate summary of the information referred to therein. The reference to said Official Statement is to the document examined by us upon delivery of the Notes, and not to any physical or electronic reproduction other than a true copy.

We express no other opinion as to any federal, state, Commonwealth of Puerto Rico or local tax consequences regarding the Notes.

The opinions stated above are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. In rendering all such opinions, we assume, without independent verification, and rely upon (i) the accuracy of the factual matters represented, warranted or certified in the proceedings and documents we have examined and (ii) the due and legal authorization, execution and delivery of those documents by, and the valid, binding and enforceable nature of those documents upon, any parties other than Government Development Bank.

The rights of the owners of the Notes and the enforceability of the Notes and the Indenture are subject to bankruptcy, insolvency, arrangement, fraudulent conveyance or transfer, reorganization, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion, and to limitations on legal remedies against public entities.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as bond counsel with respect to the Notes has concluded on this date.

Respectfully submitted,

PROPOSED FORM OF OPINION OF SPECIAL PUERTO RICO TAX COUNSEL

Upon delivery of the 2011 Series B Notes, McConnell Valdés LLC is prepared to render its Puerto Rico tax opinion with respect to the 2011 Series B Notes in substantially the following form:

___________, 2011

Government Development Bank for Puerto Rico
Roberto Sánchez Vilella Government Center
De Diego Avenue, Stop 22
San Juan, Puerto Rico 00940

Ladies and Gentlemen:

In connection with the issuance on the date hereof by Government Development Bank for Puerto Rico of its $650,000,000 Senior Notes, 2011 Series B (Taxable) (the "2011 Series B Notes"), you have requested our opinion with respect to the treatment for Puerto Rico tax purposes of the ownership and disposition of the 2011 Series B Notes.

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 (the "Bank") and Resolution No. ____ adopted by the Executive Committee of the Board of Directors of the Bank on May 12, 2011 authorizing the issuance and delivery of the 2011 Series B Notes. The Bank is a body corporate and politic constituting a public corporation and governmental instrumentality of Commonwealth of Puerto Rico (the "Commonwealth") exercising public and essential governmental functions.

From such an examination, we are of the opinion that, based on the laws of the Commonwealth now in effect, the information under the caption "TAX MATTERS – Puerto Rico Tax Considerations" in the Official Statement, dated May 12, 2011, relating to the 2011 Series B Notes, is a fair and accurate summary of the information referred to therein. The reference to said Official Statement is to the document examined by us upon delivery of the 2011 Series B Notes, and not to any physical or electronic reproduction other than a true copy.

We express no other opinion as to any federal, foreign, state, Commonwealth or local tax consequences regarding the 2011 Series B Notes.

This letter is furnished by us solely for the benefit of the Bank and the holders from time to time of the 2011 Series B Notes and may not be relied upon by any other person.

The opinions rendered in this letter are stated only as of this date, and no other opinion shall be implied or inferred as a result of anything contained in or omitted from this letter. Our engagement as special Puerto Rico tax counsel with respect to the 2011 Series B Notes has concluded on this date.

Respectfully submitted,

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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO • SENIOR NOTES, 2011 SERIES B (TAXABLE)

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