2012

GDB

Comprehensive Annual Financial Report

As of and for the year ended June 30, 2012

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

2012

Comprehensive Annual Financial Report

As of and for the year ended June 30, 2012

Prepared by:
Comptrollership Area

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

Government Development Bank for Puerto Rico
Comprehensive Annual Financial Report
As of and For the Year Ended June 30, 2012

TABLE OF CONTENTS

A CELEBRATION OF EXCELLENCE:
A RENEWED COMMITMENT TO VALUES
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

OUR MISSION STATEMENT

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

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

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

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

OUR CORE VALUES

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

STRATEGIC OBJECTIVES

The Government Development Bank for Puerto Rico's strategic objectives are:

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

2012

GDB

Introductory Section

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

GDB
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
COMMONWEALTH OF PUERTO RICO

PO Box 42001
San Juan, PR 00940-2001
Telephone (787) 722-2525

February 27, 2013

Honorable Alejandro J. García Padilla
Governor of Puerto Rico

Board of Directors of the Government
Development Bank for Puerto Rico

Dear Governor and Board of Directors:

I am pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Government Development Bank for Puerto Rico (the "Bank" or "GDB") for the year ended June 30, 2012.

This CAFR was prepared in accordance with standards set forth by the Government Finance Officers Association ("GFOA") for the Certificate of Achievement for Excellence in Financial Reporting. A governmental entity must publish an easily readable and efficiently organized comprehensive report to be eligible to receive this award. The Bank has been awarded in fiscal year 2011 with its 18th consecutive Certificate of Achievement for Excellence in Financial Reporting (the "Certificate of Achievement") from the GFOA.

The Certificate of Achievement is the highest form of recognition in government accounting and financial reporting, and its attainment represents a significant accomplishment for a government entity and its management team. A Certificate of Achievement is valid for a period of one year. We understand this CAFR meets the Certificate Program requirements and it's been submitted to the GFOA for the review process.

Responsibility for both, the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management. All disclosures necessary to enable the reader to gain an understanding of the Bank's activities have been included.

INTERNAL CONTROLS

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

THE REPORTING ENTITY

The Bank is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act Number 252 of May 13, 1942 for the meaningful purpose of carrying out the complete development of Puerto Rico's human and economic resources. The Bank did not acquire its final, present form until the enactment of Act Number 272 of May 15, 1945, which authorized it to act as fiscal agent and financial advisor for the Commonwealth and its instrumentalities. Subsequently, Act Number 17 of September 23, 1948 issued the Bank's charter and defined its duties and powers.

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

Our primary mission is to safeguard the fiscal stability of the Commonwealth and devise strategies to stimulate its economic growth. In fulfilling this mission, the Bank has created several specialized component units with its own purpose. The following are the Bank 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 Financial and Economics Institute (the "JMB Institute"), and Puerto Rico Higher Education Assistance Corporation (the "Education Assistance Corporation").

ECONOMIC CONDITIONS AND OUTLOOK

Ratings of Commonwealth General Obligations Bonds

On December 13, 2012, Moody's Investor Services ("Moody's) announced its decision to downgrade the general obligations ("GOs") of the Commonwealth of Puerto Rico (the "Commonwealth") to Baa3 from Baa1. The downgrade also applied to those ratings that are based on or capped at the GO rating of the Commonwealth. Moody's outlook is negative.

Moody's downgrade to Baa3 and the announcement of a negative outlook are the result of four (4) primary rating drivers:

- Economic growth prospects remain weak after six (6) years of recession and could be further dampened by the Commonwealth's efforts to control spending and reform its retirement system, both of which are needed to stabilize the Commonwealth's financial results;
- Debt levels are very high and continue to grow;
- Financial performance has been weak, including lackluster revenue growth and large structural budget gaps that have led to a persistent reliance on deficit financings and serial debt restructuring to support operations in recent years; and
- Need for reform of the Commonwealth's severely underfunded retirement systems is needed to avoid asset depletion and future budget pressure.

Moody's acknowledged that certain progress was made in economic and fiscal matters in the recent years, but it believed that it has been insufficient, and expressed concern over the government's ability to control expenses and reform the retirement system in the near future. In particular, the rating agency stated that it did not have a clear idea as to how and when the government would solve the problem of the retirement system's deficit and warns that lack of action on pension reform could result in an additional credit rating downgrade.

Public-Private Partnership

On June 8, 2009, the Legislative Assembly approved Act Number 29 (the "Act 29"), which established a clear public policy and legal framework for the establishment of Public-Private Partnerships ("PPPs") in Puerto Rico to further the development and maintenance of infrastructure facilities, improve the services rendered by the Government and foster the creation of jobs. The Act 29 created the Public-Private Partnerships Authority (the "PPP Authority"), the entity tasked with implementing the Commonwealth's public policy regarding PPPs. On December 19, 2009, the PPP Authority approved regulations establishing the administrative framework for the procurement, evaluation, selection, negotiation and award process for PPPs in Puerto Rico.

PPPs are long-term contracts between government and non-governmental entities such as private companies, credit unions, and municipal corporations to develop, operate, manage or maximize infrastructure projects and/or government services. PPP contracts are centered on the concept of risk transfer. The non-governmental partner takes on certain responsibilities and risks related to the development and/or operation of the project in exchange for certain benefits. PPPs can play a pivotal role in restoring investment in infrastructure and bringing about economic growth.

PPPs provide the opportunity for the government to lower project development costs, accelerate project development, reduce financial risk, create additional revenue sources, establish service quality metrics, re-direct government resources to focus on the implementation of public policy, create jobs and attract new investment. Puerto Rico has opportunities for the establishment of PPPs in various areas, particularly the construction of greenfield-type projects.

On August 8, 2011, the PPP Authority and the Puerto Rico Ports Authority (the "Ports Authority") received statements of qualifications from twelve (12) world-class consortia in response to the

Request for Qualifications ("RFQ") to acquire a concession to finance, operate, maintain and improve the Luis Muñoz Marín International Airport (the "Airport"), the busiest airport in the Caribbean. The PPP Authority and Ports Authority are seeking to achieve their primary objectives of: (i) maximizing the upfront value for the Airport, (ii) improving the Airport's safety standards, service levels and quality, (iii) maintaining and improving the quality of service to travelers as well as achieving a higher level of customer satisfaction, and (iv) creating a world-class gateway to Puerto Rico while increasing the Island's profile as a destination in the Caribbean, in order to positively impact the development of the tourism industry and overall economic prospects in Puerto Rico.

The PPP Authority published the Request for Proposals ("RFP") for the Airport in October 2011 and on May 2, 2012 announced the selection of two finalists. On July 24, 2012, the Ports Authority and Aerostar Airport Holdings, LLC (a consortia created by Grupo Aeroportuario del Sureste and Highstar Capital), signed the contract for the concession to finance, operate, maintain and improve the Airport. The PPP Authority received a final opinion from Federal Aviation Administration on February 25, 2013 and the transaction closed on February 26, 2013.

Employees Retirement System

The Employees Retirement System (the "ERS") covers substantially all employees of the departments and agencies of the Commonwealth, all members and regular employees of the Legislative Branch, and all employees of the public corporations (other than the University of Puerto Rico and the Electric Power Authority) and municipalities, except for those employees that are covered by the other two main retirement systems; Judiciary Retirement System ("JRS") and the Teachers Retirement System ("TRS").

The ERS is a trust created in 1951 to provide retirement and disability annuities, death benefits, and loans to Puerto Rico's public employees. As of June 30, 2012, the total number of participants, including active participants and retirees, in the ERS was approximately 249,000. Currently, the ERS administers two (2) separate retirement plans; a defined benefit plan, which is closed to new members since December 31, 1999; and a defined contribution plan, available to employees who entered in the ERS on or after January 1, 2000.

The challenges 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 budget appropriations from the Commonwealth's General Fund. As of June 30, 2011, 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 $23.7 billion, $9.1 billion and $319 million, respectively, and the funded ratios were 6.8%, 20.8% and 16.7%, 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, proceeds from borrowings and sale of investment portfolio assets to cover funding shortfalls.

On February 27, 2013, the Commonwealth filed comprehensive legislation to reform our main retirement systems and address the large unfunded liability. Proposed measures for both pension plans represent meaningful steps towards effectively addressing the current annual cash flow deficit.

THE BANK'S ROLE

The Bank's principal functions are to act as financial advisor to and fiscal agent for the Commonwealth, its municipalities and public corporations in connection with the issuance of bonds and notes, to make loans and advances to public corporations and municipalities, and to promote the economic development of Puerto Rico.

As part of its role as lender and promoter of the economic development of Puerto Rico, the Bank provides financing to the Commonwealth, its public corporations and municipalities. This financing includes interim loans to finance the capital expenditures of the Commonwealth in anticipation of the issuance of bonds and notes, and loans to cover operational deficits of those government entities. The Bank generally does not provide financing to any governmental entity of the Commonwealth unless GDB reasonably believes that the borrower governmental entity will have sufficient resources, including the ability to issue bonds or notes or otherwise borrow funds, to repay such loan. GDB, however, has provided financing in the past to governmental 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 GDB's financial condition and liquidity.

In the past years, the Bank has taken an active role to promote the stabilization of the fiscal situation for the Commonwealth. As a fiscal agent, the Bank has identified those agencies, public corporations and municipalities where their critical financial condition may worsen the delicate fiscal situation of the Commonwealth.

The Bank has entered into Fiscal Oversight Agreements ("FOA") with agencies and public corporations, as part of the Bank's risk management activities. The FOA requires to agencies and public corporations a comprehensive expense reduction program, including certain fiscal oversight controls, subject to laws and existing agreements of the agencies and 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, requirements and to operate its infrastructure in an efficient and reliable manner and in compliance with applicable laws and regulations. Furthermore, the Bank's agreement to provide current financing and any future financing is expressly conditioned upon the agencies and public corporations' compliance with the covenants set forth in the FOAs and the Bank's right to monitor and enforce such compliance.

ECONOMIC TRENDS

Puerto Rico's economy experienced a considerable transformation during the second half of the twentieth century, from an agriculture economy to an industrial one. Factors contributing to this transformation included government-sponsored economic development programs, increases in the level of federal transfer payments, and the relatively low cost of borrowing. In some years, these factors were aided by a significant rise in construction investment driven by infrastructure projects, private investment, primarily in housing, and relatively low oil prices. Nevertheless, the significant oil price increases experienced from January 2002 to the present, the continuous reductions of the manufacturing and construction sectors, and the budgetary pressures on government finances triggered a general contraction in the economy.

Puerto Rico's economy is currently in a recession that began in the fourth quarter of fiscal year 2006, a fiscal year in which the real gross national product grew by only 0.5% and the government was shut-down during the first two weeks of May. For fiscal years 2008, 2009 and 2010 the real gross national product contracted by 2.9%, 3.8% and 3.4%, respectively. For fiscal year 2011, preliminary reports indicate that the real gross national product contracted by 1.5%. The Planning Board projects a slight increase in real gross national product of 0.4% for fiscal year 2012 and an increase of 0.6% for fiscal year 2013.

Several key indicators show a continuation of the general economic downturn during fiscal year 2012. The Household Survey, which showed positive growth rates in total employment from fiscal year 2002 to fiscal year 2006, started to reflect weaknesses during fiscal year 2007, when it decreased by 0.3%, and for fiscal years 2008, 2009, 2010 and 2011 exhibited significant drops of 3.6%, 4.1%, 5.6% and 2.3, respectively. Nevertheless, in fiscal year 2012 this survey showed a moderate upturn of 0.8%. On the other hand, the Payroll Survey, which showed positive growth rates from fiscal year 2003 to fiscal year 2005, declined by 0.2%, 1.5%, 1.1%, 2.7%, 5.4% and 2.0% in fiscal years 2006, 2007, 2008, 2009, 2010 and 2011, respectively. In fiscal year 2012, payroll employment registered a further reduction of 0.2%. Total employment according to the Household Survey has decreased from 1,144 million in fiscal year 2001 to 1,085 million in fiscal year 2012. On the other hand, according to the Establishment Survey, payroll employment has diminished from 1,021 million in fiscal year 2001 to 922 thousand in fiscal year 2012. The average unemployment rate increased from 10.4% in fiscal year 2001 to 15.0% in fiscal 2012.

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. The manufacturing sector has undergone fundamental changes over the years as a result of increased emphasis on higher-wage, high-technology industries, such as pharmaceuticals, biotechnology, computers and electronic products, professional and scientific instruments, and certain high technology machinery and equipment.

Manufacturing is the largest sector of the Puerto Rico economy in terms of gross domestic product. The Planning Board figures show that in fiscal year 2011 manufacturing generated $48.0 billion, or 48.6%, of gross domestic product.

Total employment in the manufacturing sector decreased by 34,800 from fiscal year 2005 to fiscal year 2012. Manufacturing employment had been declining during the past decade, but the decline accelerated during fiscal years 2002 and 2003, falling 10.6% and 4.8%, respectively. Thereafter, manufacturing employment stabilized around 118,000 and 117,000 jobs, but the accentuated acceleration in job losses reappeared in fiscal year 2006 with the sector experiencing another drop of 4.0%. For fiscal years 2007, 2008, 2009, 2010, 2011 and 2012, manufacturing employment decreased by 4.2%, 3.5%, 7.0%, 8.7%, 3.1% and 3.6%, respectively. The sector was also adversely impacted by the phase out of the incentives provided by Section 936 of the Internal Revenue Code, which expired on December 31, 2005.

The service sector ranks second to manufacturing in its contribution to gross domestic product, but first in its contribution to real gross national product. The service sector is also the sector with the greatest amount of employment. Notice that what is here called "service sector" comprises the sectors of utilities, trade, transportation, warehousing, information, financial services, and the service sector properly speaking. In fiscal year 2010, the service sector generated $40.6 billion, or 41.1%, of gross domestic product. Utilities, trade, professional, scientific and technical services, management and administrative services, health care and social services, and accommodation and food services showed slight increases (in current prices) in fiscal year 2011. Education services remained flat in fiscal year 2011 (contrary to the significant increases observed during the three previous years), while transportation and warehousing, information, financial services, recreation and other services experienced reductions in fiscal year 2011, as measured by gross domestic product at current prices. Service-sector employment decreased from 561,592 in fiscal year 2007 to 538,983 in fiscal year 2012 (representing 58.5% of total, non-farm, payroll employment). The average service-sector employment for fiscal year 2012 represents a decrease of 1.2% compared to the prior fiscal year.

Although the construction industry represents a relatively small segment of the economy compared to other sectors, it has made significant contributions to the growth of economic activity due to its multiplier effect on the whole economy. Since its peak in fiscal year 2000, real construction investment has declined at an average annual growth rate of 7.4%. Such growth rates started to decrease significantly in fiscal year 2005, as a consequence of the current contraction of the local economic activity. During fiscal years 2007 to 2010, real construction investment decreased at an average annual rate of 17.0%. During the same time period, the total value of construction permits, in current dollars, decreased at an average annual rate of 16.8%. During fiscal year 2011, real construction investment increased by 2.2% as a result of the increase in public construction investment. The Planning Board expects an increase in construction investment of 5.0% in real terms for fiscal year 2012.

Public investment has been an important component of construction investment. During fiscal year 2011, approximately 53.1% of the total investment in construction was related to public projects, which represents a significant increase in its share of total construction investment compared to 37.9% in fiscal year 2000. Public investment in construction has been negatively affected by the Commonwealth's fiscal difficulties, while private investment in construction is still suffering from the credit conditions that prevailed during the last decade. Public investment was primarily in housing, schools (and school reconstruction programs), water projects, and other public infrastructure projects. Average payroll employment in the construction sector during fiscal year 2012 was 33,500, an increment of 5.6% from fiscal year 2011.

Finally, tourism continues growing at reasonable rates, although it represents a relatively small segment within the economy. More than 4.2 million visitors spent over $3.1 billion in Puerto Rico in fiscal year 2011. For fiscal year 2012, the number of persons registered in tourist hotels, including residents of Puerto Rico and tourists, was 2,098,600, an increase of 9.4% over the number of persons registered during the same period of fiscal year 2011. The average occupancy rate in tourist hotels during fiscal year 2012 was 70.4%, an increase of 2.1% from the prior fiscal year. Also, during fiscal year 2012, the average number of rooms available in tourist hotels increased by 2.5% to 11,791 rooms compared to the same period of fiscal year 2011. In terms of employment figures, this sector has shown a behavior consistent with the local business cycle, accentuated by the contraction of U.S. economic activity. For fiscal year 2012, employment in hotels and other lodging facilities decreased by 1.0% to 12,700 jobs.

ECONOMIC PERSPECTIVE

In March 2012, the Planning Board released the preliminary estimate of the real gross national product for fiscal year 2011, and revised the real gross national product forecast for fiscal year 2012. It also published a forecast for fiscal year 2013. The preliminary figure of the real gross national product represented a reduction of 1.5%, a downward result from the forecast of -1.0% for that year, reported in March 2011. The Planning Board's revised again its forecast for fiscal year 2012 in November 2012, presenting a downward revision of the real gross national product for fiscal years 2012 and 2013. The forecast took into account the estimated effects on the Puerto Rico economy of the Government's fiscal stabilization plan, the impact of the initial phase of the tax reform, the disbursement of funds from the American Recovery and Reinvestment Act, and the activity expected to be generated from the Government's local stimulus package. The revised forecast also considered the effect on the Puerto Rico economy of general and global economic conditions, the U.S. economy, the volatility of oil prices, interest rates and the behavior of local exports, including expenditures by visitors. The Planning Board's forecast for fiscal year 2012 (the one reported in November 2012) projects an increase in gross national product of 0.4% in constant dollars. For fiscal year 2013, the Planning Board forecasted an increase of 0.6% in real gross national product, considering a slight improvement in oil prices.

ACKNOWLEDGEMENTS

The preparation of this report could not have been accomplished without the hard work and devotion of all the Bank's personnel, particularly those at the Accounting and Finance Department.

We are very grateful for your support.

Sincerely,

María C. Berio
Executive Vice-President
Director of Administration,
Operations & Comptrollership
Government Development Bank for Puerto Rico

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Government Development Bank for Puerto Rico

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Christopher P Morrill

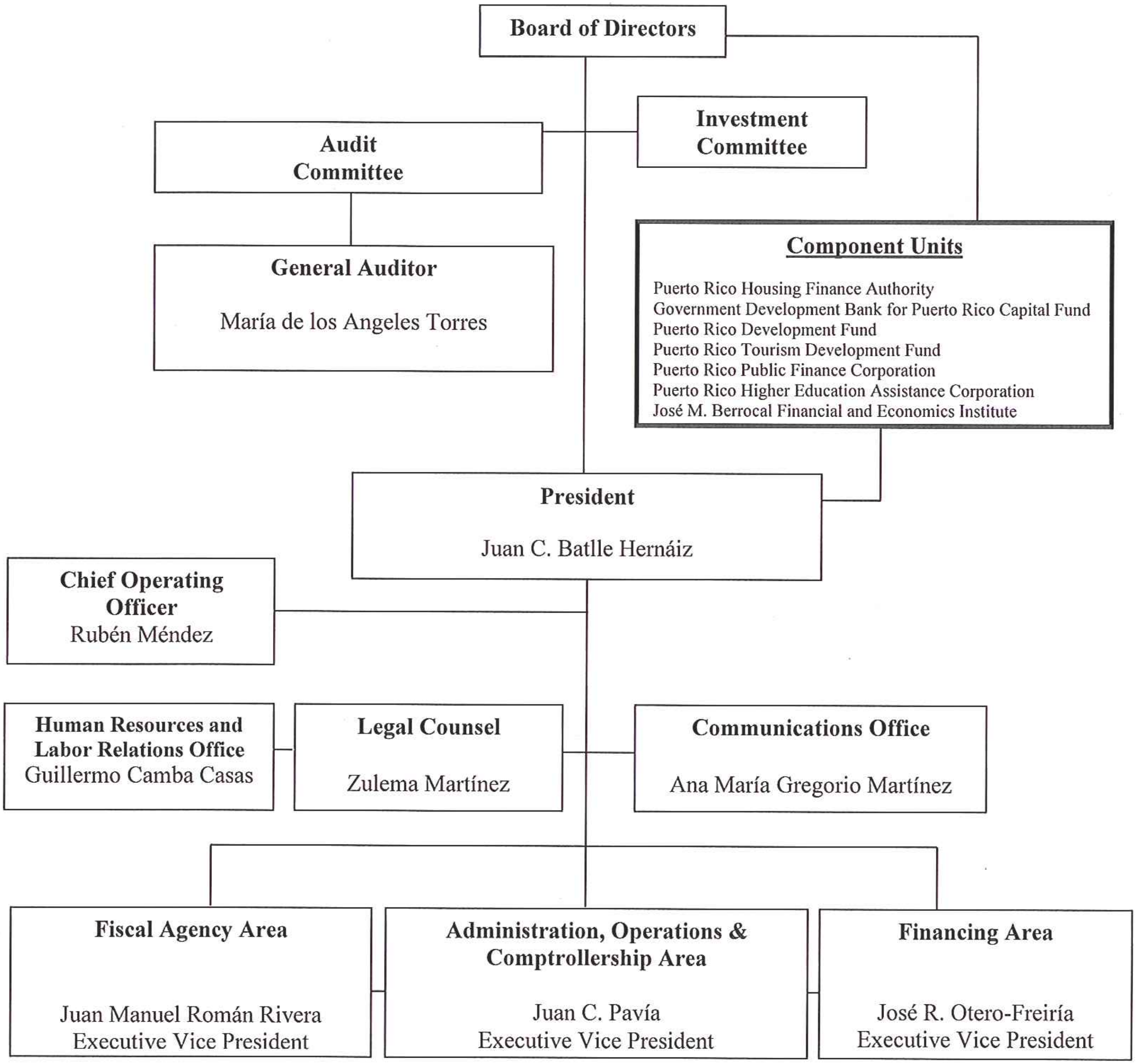
President

Jeffrey R. Esser

Executive Director

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Organizational Chart and Principal Officers
June 30, 2012



2012

FINANCIAL SECTION

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

Deloitte.

Deloitte & Touche LLP
Torre Chardón
350 Chardón Avenue Suite 700
San Juan, PR 00918-2140
USA

Tel: +1 787 759 7171
Fax: +1 787 759 8701
www.deloitte.com

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, 2012, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2012, and the respective changes in financial position and, where applicable, cash flows 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 and its agencies and instrumentalities amounted to approximately $5.7 billion or 36% of the Bank's total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth of Puerto Rico and/or its agencies and instrumentalities. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit ratings of the Commonwealth of Puerto Rico and its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with the Bank and, accordingly, may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 14 to 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The combining nonmajor funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bank's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Deloitte & Touche LLP

February 11, 2013

Stamp No. E43671
affixed to original.

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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, 2012. 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, 2012 amounted to \$15,780 million for an increase of \$270 million or 1.7% from the \$15,510 million at June 30, 2011. Liabilities increased by 2.6% or \$333 million to \$13,259 million from \$12,926 million.

- Net assets government wide decreased from \$2,584 million at June 30, 2011 to \$2,521 million at June 30, 2012. The decrease in net assets of \$63 million in fiscal year 2012 is composed of \$53 million from business-type activities and \$10 million from governmental activities. Net assets to total assets decreased to 16.0% at June 30, 2012 from 16.7% at June 30, 2011.

- The operating income of the GDB Operating Fund increased from \$107.1 million in 2011 to \$285.5 million or \$178.4 million in fiscal year 2012. This increase represented an improvement of 166.5% from the previous year.

- The Bank issued approximately \$5,092 million of notes consisting of \$450 million of Senior Notes 2011 Series C; \$295 million of Senior Notes 2011 Series D; \$150 million of Senior Notes 2011 Series E; \$400 million of Senior Notes 2011 Series F; \$1,399 million of Senior Notes 2011 Series H, \$398 million of Senior Notes 2011 Series I; \$1,000 million of Senior Notes 2012 Series A and \$1,000 million of notes payable to a financial institution. The Bank used the proceeds of these issuances mainly to repay previously issued notes with higher interest rates, increase the investment portfolio, and make loans to the Commonwealth of Puerto Rico (the "Commonwealth"), its public corporations and municipalities.

- Interest income on loans in the GDB Operating Fund amounted to \$487.9 million in 2012, an increase of \$82.1 million over the prior year. The Bank collected approximately \$29.6 million of principal and \$142.2 million of interest on loans to the public sector from the general fund of the Commonwealth.

- Included within salaries and fringe benefits expense is approximately \$6.0 million related to an employees' voluntary termination plan provided during the current fiscal year under Act No. 70 of July 2, 2010.

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, 2012 amounted to $15,780 million and $13,259 million, respectively, for net assets of $2,521 million or 16.0% of total assets. Within assets, excluding the loans portfolio, federal funds sold and securities purchased under agreements to resell, and deposits placed with banks show the most significant growth of $389 million and $246 million, respectively, over fiscal year 2011 ending balances. Investments and investment contracts increased by $34 million or 0.6% when compared to the prior year. The proportion of investments and investment contracts to total assets decreased to 34.1% in 2012 from 34.5% in 2011.

The loan portfolio of $8,374 million at June 30, 2012 shows a decrease of 0.3% when compared to the prior year ending balance of $8,396 million. Loans as a percentage of total assets decreased 1.0% from 54.1% at the end of fiscal year 2011 to 53.1% at June 30, 2012.

The Bank's Operating Fund issued several notes payable during fiscal year 2012 amounting to $5,092 million, an increase of $1,589 million compared to the prior year. The Bank has primarily used the proceeds from these notes to increase its investment portfolio, make loans to the Commonwealth, its public corporations and municipalities, and repay certain higher interest rate debt. On the other hand, the Bank decreased its funding from securities sold under agreements to repurchase by 8.9% over the 2011 balance.

Out of the $2,521 million in net assets, $2,208 million or 87.6% is unrestricted, $154 million or 6.1% is restricted for use in housing programs, and the remaining $159 million or 6.3% 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 $104.0 million at June 30, 2012, before $102.1 million in net balances due to business-type activities. Total liabilities amounted to $47.6 million, for a net deficiency of $45.7 million. Net deficiency has been broken down into the amounts restricted for affordable housing programs of $59.4 million, and the unrestricted deficit of $105.1 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, 2012 and 2011 is shown below (amounts in thousands):

	June 30,		Change	
	2012	2011	Amount	Percent
Assets:				
Restricted:				
Cash and due from banks, and deposits placed with banks	$ 26,281	$ 72,295	$ (46,014)	(63.6)%
Investments and investment contracts	63,844	70,165	(6,321)	(9.0)%
Other assets	13,826	21,723	(7,897)	(36.4)%
Total assets before internal balances	103,951	164,183	(60,232)	(36.7)%
Internal balances	(102,062)	(127,675)	25,613	(20.1)%
Total assets	1,889	36,508	(34,619)	(94.8)%
Liabilities:				
Accounts payable and accrued liabilities	44,181	67,303	(23,122)	(34.4)%
Notes payable — due in more than one year	3,427	4,811	(1,384)	(28.8)%
Total liabilities	47,608	72,114	(24,506)	(34.0)%
Net deficit:				
Invested in capital assets	19	42	(23)	(54.8)%
Restricted for affordable housing programs	59,415	50,720	8,695	17.1%
Unrestricted deficit	(105,153)	(86,368)	(18,785)	21.7%
Total net deficit	$ (45,719)	$ (35,606)	$ (10,113)	28.4%

Investments and investment contracts amounted to $63.8 million and, together with cash and due from banks, and deposits placed with banks of $26.3 million, account for the majority of the assets held by governmental activities. These assets are held to provide funds for the execution of the various affordable and other housing programs managed by the Puerto Rico Housing Finance Authority (the "Housing Finance Authority"). Other assets are composed principally of due from the HUD and HOME federal programs. Accrued liabilities mainly consist of unpaid expenditures related to the HOME and My New Home Program funds and of subsidies payable on various housing programs.

Condensed financial information on expenses, program revenues, and changes in net assets of governmental activities for the years ended June 30, 2012 and 2011 is shown below (in thousands):

	Year Ended June 30, 2012		
	General Government	Housing Assistance Programs	Total
Expenses	$ 8,260	$ 265,451	$ 273,711
Program revenues:			
Charges for services — financing and investment		4,683	4,683
Operating grants and contributions	-	177,001	177,001
Net expenses	$ (8,260)	$ (83,767)	(92,027)
Transfers — net			81,914
Change in net assets			(10,113)
Net deficit — beginning of year			(35,606)
Net deficit — end of year			$ (45,719)

	Year Ended June 30, 2011		
	General Government	Housing Assistance Programs	Total
Expenses	$ 6,155	$ 311,951	$ 318,106
Program revenues:			
Charges for services — financing and investment		4,690	4,690
Operating grants and contributions	-	279,609	279,609
Net expenses	$ (6,155)	$ (27,652)	(33,807)
Transfers — net			(220)
Change in net assets			(34,027)
Net deficit — beginning of year			(1,579)
Net deficit — end of year			$ (35,606)

4. GOVERNMENTAL FUND RESULTS

Operating grants and contributions decreased by $103 million when compared to the prior year. Operating grants and contributions decreased from $280 million in 2011 to $177 million in 2012 mainly because this year the Housing Finance Authority received $21 million in American Recovery and Reinvestment Act (ARRA) funds, representing a decrease of $75 million when compared to the $96 million received in 2011. In addition, the Housing Finance Authority did not receive funds for the Closing Costs Assistance Program during fiscal year 2012 while it received $36.8 million in 2011. These decreases were offset by an increase of $7 million on the operating grants of the HUD programs. The loss in the operations of the governmental funds is mainly related to the fact that the Housing Finance Authority is subsidizing certain housing assistance programs with internally generated funds.

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. Presently, the Housing Finance Authority operates three programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD programs increased $7 million from $127 million in 2011 to $134 million in 2012.

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 "sub-awards" 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 $21.2 million in 2012 as compared to $95.7 million in 2011.

Affordable Housing Mortgage Subsidy Program (AHMSP) Stage 7 — This fund accounts for the proceeds of specific revenue sources under Stage 7 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under this stage, 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. Loans originated, as well as servicing, are kept by the originating financial institution. During the year ended June 30, 2012, subsidy and other expenditures amounted to $4 million, and other financing sources — net amounted to $475 thousand.

My New Home Program — This program provides closing costs assistance to eligible families for the purchase of a principal residence through reimbursements of origination and closing costs. During the year ended June 30, 2012, total subsidy and interest expenditures amounted to $69.2 million.

At June 30, 2012, the Housing Finance Authority had various governmental funds in a deficit position. The Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth. Refer to Note 21 to the basic financial statements for additional information on these funds.

5. BUSINESS-TYPE ACTIVITIES

Condensed financial information on assets, liabilities, and net assets as of June 30, 2012 and 2011, is presented below (amounts in thousands):

	June 30,		Change	
	2012	2011	Amount	Percent
Assets:				
Cash and due from banks	$ 70,962	$ 343,214	$ (272,252)	(79.3)%
Federal funds sold and securities purchased under agreements to resell	477,900	88,850	389,050	437.9%
Deposits placed with banks	977,406	672,362	305,044	45.4%
Investments and investment contracts	5,319,171	5,278,429	40,742	0.8%
Loans receivable — net	8,374,104	8,395,959	(21,855)	(0.3)%
Interest and other receivables	134,623	235,085	(100,462)	(42.7)%
Real estate available for sale	107,824	128,568	(20,744)	(16.1)%
Other assets	117,460	132,151	(14,691)	(11.1)%
Due from other funds	102,062	127,675	(25,613)	(20.1)%
Capital assets	96,199	71,008	25,191	35.5%
Total assets	15,777,711	15,473,301	304,410	2.0%
Liabilities:				
Deposits:				
Demand	3,947,130	3,782,555	164,575	4.4%
Certificates of deposit	2,119,804	1,771,133	348,671	19.7%
Securities sold under agreements to repurchase	884,484	970,819	(86,335)	(8.9)%
Accrued interest payable	48,847	30,466	18,381	60.3%
Accounts payable, accrued liabilities, and other liabilities	277,658	109,255	168,403	154.1%
Certificates of indebtedness	-	4,300	(4,300)	(100.0)%
Bonds, notes, and mortgage-backed certificates payable:				
Due in one year	603,528	159,697	443,831	277.9%
Due in more than one year	5,329,396	6,025,328	(695,932)	(11.6)%
Total liabilities	13,210,847	12,853,553	357,294	2.8%
Net assets:				
Invested in capital assets	96,199	71,008	25,191	35.5%
Restricted for:				
Mortgage loan insurance	62,762	61,119	1,643	2.7%
Affordable housing programs	91,492	247,643	(156,151)	(63.1)%
Other housing programs	3,025	2,567	458	17.8%
Unrestricted	2,313,386	2,237,411	75,975	3.4%
Total net assets	$ 2,566,864	$ 2,619,748	$ (52,884)	(2.0)%

Federal Funds Sold and Securities Purchased Under Agreements to Resell, and Deposits Placed with Banks — The Bank increased its federal funds sold and securities purchased under agreements to resell by $389 million, from $89 million at June 30, 2011 to $478 million at June 30, 2012. Deposits placed with banks increased by $305 million, from $672 million to $977 million. The increase is mainly due to securities sold under agreements to repurchase for $200 million to earn a higher yield than the one offered by federal funds at year end. Further, the remaining increase in these short-term instruments represents an excess of the Bank's available funds invested in federal funds and deposits placed with banks.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to $5,319 million at June 30, 2012. This amount represents an increase of $41 million or 0.8% when compared to the prior year balance of $5,278 million. The investment portfolio has consisted primarily of U.S. Treasury Notes, Treasury Bills and U.S. sponsored agency notes and mortgage-backed securities with very high credit ratings, reflecting the Bank's prudent and conservative investment policies. The majority of the Bank's investment portfolio is invested in AAA to A- rated securities. The investment portfolio comprised 33.7% of the total assets of the Bank's business-type activities at June 30, 2012, down by 0.4% as compared to 34.1% at the close of fiscal year 2011. Within the investment securities portfolio, $1,367 million at June 30, 2012 and $1,503 million at June 30, 2011, were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable decreased by $22 million or .3%, from the $8,396 million balance at June 30, 2011 to $8,374 million at June 30, 2012. The Bank's basic role is to provide financial support to the Commonwealth and its instrumentalities for public works and other operational needs. To support the governmental efforts of improving and stimulating the Island's economy, the Bank also finances the development and construction of infrastructure, housing projects, and hotels.

Loans to municipalities had a net increase of $353 million over the prior year balance. Some of these loans were possible with the improvement of the municipalities' debt margin capacity as a result of increases in the property and municipal sales taxes pledged for the repayment of the loans.

Private sector loans outstanding at June 30, 2012 and 2011 amounted to $533 million and $605 million, respectively, net of an allowance for loan losses and deferred origination fees of $290.1 million and $27.5 million at June 30, 2012, and $132.1 million and $19.9 million at June 30, 2011, respectively. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank. Refer to Note 5 for further information on loans receivable and allowance for loan losses.

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 $70 million. Additional properties are being negotiated with the parties involved to satisfy the deficiency.

In the meantime, the Bank has recorded a receivable for this difference, net of repayments, as permitted by the agreement with the transferor. The Office of Management and Budget of the Commonwealth ("OMB") paid to GDB $9.1 million during fiscal year 2012 to cover a portion of this difference. In addition, the OMB has committed to include in the Commonwealth general fund budget an amount of approximately $4.4 million, plus interest at the rate of 7%, for the next fourteen years to assist the agencies involved in the transaction in repaying the accounts receivable of the Bank. The proposed appropriations will be subject to the approval of the Legislature of the Commonwealth of Puerto Rico.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to $96 million at June 30, 2012, an increase of $25 million from the prior year. Additions to capital assets during the year ended June 30, 2012 aggregated to $18.4 million principally in the land line item. Depreciation and amortization of $2.1 million was charged to operations during fiscal year 2012. In addition, land previously held in trust by the Housing Finance Authority of approximately $8.8 million was transferred to capital assets as of June 30, 2012. Refer to Note 8 to the basic financial statements for additional information on capital assets.

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

Demand deposits and certificates of deposit had a combined increase of $513 million, from $5,554 million at June 30, 2011 to $6,067 million at June 30, 2012. At the end of fiscal year 2012, management increased the Bank's liquidity by capturing short-term deposits, such as certificates of deposit, instead of issuing senior notes. Deposits represent approximately 45.9% and 43.2% of total liabilities at June 30, 2012 and 2011, respectively.

Securities Sold under Agreement to Repurchase — Securities sold under agreements to repurchase decreased by $86 million or 8.9% from $971 million to $885 million at June 30, 2011 and June 30, 2012, respectively.

Other Borrowed Funds — The Bank and the Housing Finance Authority redeemed several notes and bonds payable during fiscal year 2012, which explains the net decrease of $252 million or 4.1% over the prior year balance of $6,185 million. The senior notes issued by the Bank during fiscal year 2012 consist of term notes maturing on various dates from October 15, 2012 to August 1, 2026. All of such senior notes have early redemption options. Interest rates on such notes range from 1% to 4.375%. The Bank used the proceeds from these obligations for general operational purposes that include, among others, the substitution of higher cost debt, the increase of its investment portfolio and the funding of loans. 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 to the basic financial statements for additional information on borrowed funds.

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2012 and 2011 is presented below (in thousands):

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

	Year Ended June 30, 2011			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and others	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$ 409,653	$ 14,084	$ 486,860	$ 91,291
Housing Finance Authority	93,504	13,321	89,326	9,143
Tourism Development Fund	50,125	5,191	28,042	(16,892)
Public Finance Corporation	4		1	(3)
Capital Fund	37	35	1	(1)
Development Fund	10,947		(1,434)	(12,381)
Other nonmajor funds	110	2,381	5	2,276
Total	$ 564,380	$ 35,012	$ 602,801	73,433
Special item — Contribution from Puerto Rico Infrastructure Financing Authority				555
Transfers from governmental activities				220
Change in net assets				74,208
Net assets — beginning of year				2,545,540
Net assets — end of year				$ 2,619,748

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 $638.4 million from its loan and investment portfolios, and $36.8 million in other charges for services, including its fiscal agency function. These revenues covered $402.2 million in expenses for a change in net assets, after net transfers-in of $1.4 million, of $274 million, surpassing the change in net assets of any other activity.

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 $14,957 million at June 30, 2012, compared to $14,547 million at June 30, 2011. This represents an increase of $410 million, which was sustained by the net increase in liabilities of $136 million and the change in net assets of $274 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. The investment portfolio increased by $676 million and loans increased by $61 million. Cash and due from banks, and accrued interest receivable decreased from $576 million at June 30, 2011 to $209 million at June 30, 2012.

Operating income of the GDB Operating Fund experienced an increase from $107 million in fiscal year 2011 to $285 million in fiscal year 2012, or $178 million, which represents a 166.5% increase. Change in net assets had a significant increase from $92 million in fiscal year 2011 to $274 million in fiscal year 2012. 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 $182 million or 148.8%, from $122 million in 2011 to $304 million in 2012. Most of the increase results from the loan portfolio, which shows an increase of $82 million or 20.2% when compared to the prior year results. Change in fair value of investments contributed to the increase with a gain of $61 million, which is $27 million more than the gain of $34 million of fiscal year 2011. Interest income on investments increased $42 million or 89.7% mainly because of shift of our investment portfolio from shorter-term securities, such as U.S. treasury bills, to securities with longer maturities, such as mortgage-backed securities with higher interest rates. Interest expense decreased by $30 million, or 8.3%, mainly as a result of: (1) a decrease on the interest rates paid on deposits resulting in a decrease of $52 million on this line item, (2) a decrease in the average rate paid during the year on securities sold under agreements to repurchase resulting in a decrease of $9.8 million on this line item, and (3) and an increase of $31.6 on interest expense on notes payable due to an increase in the average balance outstanding during the year.

(b) *Provision for Losses on Loans*

The experience with the public sector loan portfolio, even in periods of economic distress such as the present, provides continued comfort to management. After an analysis performed, management believes that there is no need for an allowance for possible losses on loans, and guarantees and letters of credit to public sector entities.

(c) Noninterest Income

Noninterest income increased to $37 million in fiscal year 2012 from $14 million in fiscal year 2011, or $23 million. Fiscal agency fees constitute the main component of noninterest income. There was an intense activity of bond issuances of public sector entities during fiscal year 2012 when compared to fiscal year 2011. The fiscal agency fees increased from $5.7 million in fiscal year 2011 to $24.9 million in fiscal year 2012, representing an increase of 338%.

(d) Noninterest Expenses

Total noninterest expenses showed an increase of $20 million from $35 million in fiscal year 2011 to $55 million in fiscal year 2012. This increase is mainly because of the following three major items in fiscal year 2012: (1) write downs of real estate available for sale of approximately $9.9 million, (2) voluntary and involuntary terminations costs increase of $1.7 million as compared to prior year 2011, and (3) $7.5 million increase in professional services the Bank incurred as fiscal agent for the development of different projects for the public benefit. These 2012 items were presented within salaries and fringe benefits, legal and professional costs and other expense line items.

Housing Finance Authority — Net assets of the Housing Finance Authority decreased by $105 million from $645 million at June 30, 2011 to $540.0 million at June 30, 2012 as a result of decrease in total assets of $557 million and in liabilities of $452 million. The decrease in total assets is mainly due to the following:

- Cash increased from $10 million at June 30, 2011 to $19 million at June 30, 2012 or a $9 million increase as a result of cash released on the restructuring of the Mortgage Trust III and the Portfolios IX and X.

- Investments and deposits placed with banks decreased from $1,199 million at June 30, 2011 to $607 million at June 30, 2012 or a $592 million decrease. This decrease was principally the result of investment redemptions and sales to originate construction and single-family loans, and to redeem outstanding bonds in connection with the restructuring of the Mortgage Trust III and the Portfolios IX and X.

- Loans receivable, net, increased to $290 million at June 30, 2012 from $247 million in 2011 or a $43 million increase. This increase was directly related to the origination of construction and single-family loans.

- Assets, excluding cash, deposits placed with banks, loans, and investments, decreased from $70 million at June 30, 2011 to $53 million at June 30, 2012 or a $17 million decrease. There was a decrease in balances due from governmental funds of approximately $13 million and a decrease of approximately $5 million in other assets.

- The decrease in long-term liabilities of approximately $435 million is mainly due to the restructuring of the Mortgage Trust III fund, which resulted in the redemption of $275 million of outstanding bonds, and the early redemption of the Single-Family Mortgage Revenue Bonds of the Portfolios IX and X by$168 million.

- Change in net assets decreased $114.0 million, from a positive $9.4 million in 2011 to a loss of $104.6 million in 2012. The main items that contributed to this decrease were a loss on early extinguishment of debt of $31.9 million and net transfers-out of $83 million.

Tourism Development Fund — Total assets decreased to $481 million from $611 million in 2011 or a decrease of $130 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 $407 million for an increase of $7 million from June 30, 2011. The Tourism Fund originated approximately $26.8 million in loans to the private sector during the year ended June 30, 2012. 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 $153 million during the year ended June 30, 2012.

At June 30, 2012, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $461.5 million. Also, the exposure assessment required an increase of the allowance for possible losses on guarantees and letters of credit of $68.3 million.

Change in net assets of the Tourism Development Fund went from a $16.9 million loss recorded last year to a loss of $220.8 million in 2012.

Capital Fund — The Capital Fund had a net loss of $37,856 for the year ended on June 30, 2012. After transferring most of its assets to the Tourism Development Fund, the Capital Fund's activities have been significantly reduced.

Public Finance Corporation — The Public Finance Corporation had a net gain of $150 thousand for the year ended on June 30, 2012. The main operation of this component unit is the issuance of special appropriation bonds. During fiscal year 2012, it had other income of $152.9 thousand. Interest income for fiscal year 2012 was $1,173 offset by legal and professional fees of $4,095.

Development Fund — The Development Fund's net loss of $2 million was mostly attributed to the result of net investment income of $304 thousand, $1.4 million provision for loan losses related to loans to the private sector and a $933 thousand 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, 2012, the outstanding balance of loans guaranteed by the Development Fund amounted to approximately $9.5 million.

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, 2012

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and due from banks	$ -	$ 70,274,561	$ 70,274,561
Federal funds sold and securities purchased under agreements to resell		477,900,000	477,900,000
Deposits placed with banks		909,442,789	909,442,789
Investments and investment contracts		3,952,356,696	3,952,356,696
Loans receivable — net		8,324,270,217	8,324,270,217
Accrued interest receivable		132,508,137	132,508,137
Due from (to) other funds	(102,062,032)	102,062,032	
Restricted assets:			
Cash and due from banks	17,102,216	687,479	17,789,695
Deposits placed with banks	9,178,519	67,962,678	77,141,197
Due from federal government	13,195,782		13,195,782
Investments and investment contracts	63,844,007	1,366,814,175	1,430,658,182
Loans receivable — net		49,833,302	49,833,302
Interest and other receivables	574,347	2,115,134	2,689,481
Real estate available for sale		1,702,014	1,702,014
Other assets	36,804	3,215,006	3,251,810
Real estate available for sale		106,122,317	106,122,317
Capital assets:			
Land and other nondepreciable assets		85,015,540	85,015,540
Other capital assets	19,034	11,183,869	11,202,903
Other receivables		62,045,359	62,045,359
Other assets		52,200,074	52,200,074
TOTAL ASSETS	1,888,677	15,777,711,379	15,779,600,056
LIABILITIES			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		3,947,129,674	3,947,129,674
Certificates of deposit:			
Due within one year		1,744,662,333	1,744,662,333
Due in more than one year		375,142,038	375,142,038
Securities sold under agreements to repurchase — due within one year		884,484,334	884,484,334
Accrued interest payable		48,314,358	48,314,358
Accounts payable and accrued liabilities:			
Due within one year		115,671,329	115,671,329
Due in more than one year		2,522,957	2,522,957
Allowance for losses on guarantees and letters of credit:			
Due within one year		14,537,190	14,537,190
Due in more than one year		78,424,136	78,424,136
Participation agreement payable:			
Due within one year		866,667	866,667
Due in more than one year		24,338,889	24,338,889
Bonds and notes payable:			
Due within one year		569,648,281	569,648,281
Due in more than one year	3,426,866	4,995,353,470	4,998,780,336
Liabilities payable from restricted assets:			
Accrued interest payable	78,396	532,586	610,982
Accounts payable and accrued liabilities — due within one year	44,102,270	36,997,798	81,100,068
Allowance for losses on mortgage loan insurance		4,299,046	4,299,046
Bonds, notes and mortgage-backed certificates payable:			
Due within one year		33,879,591	33,879,591
Due in more than one year		334,042,845	334,042,845
TOTAL LIABILITIES	47,607,532	13,210,847,522	13,258,455,054
NET ASSETS (DEFICIENCY)			
Invested in capital assets	19,034	96,199,409	96,218,443
Restricted for:			
Mortgage loan insurance		62,761,594	62,761,594
Affordable housing programs		91,492,278	91,492,278
Other housing programs	59,414,808	3,024,494	62,439,302
Unrestricted net assets (deficit)	(105,152,697)	2,313,386,082	2,208,233,385
TOTAL NET ASSETS (DEFICIENCY)	$ (45,718,855)	$ 2,566,863,857	$ 2,521,145,002

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, 2012

	Expenses	Program Revenues: Charges for Services - Fees, Commissions, and Others	Program Revenues: Charges for Services - Financing and Investment	Program Revenues: Operating Grants and Contributions	Net Revenues (Expenses) and Changes in Net Assets: Governmental Activities	Net Revenues (Expenses) and Changes in Net Assets: Business-Type Activities	Total
FUNCTIONS/PROGRAMS:							
Governmental activities:							
General government and other	$ 8,260,099	$ -	$ -	$ -	$ (8,260,099)	$ -	$ (8,260,099)
Housing assistance programs	265,450,665		4,683,440	177,000,704	(83,766,521)		(83,766,521)
Total governmental activities	273,710,764		4,683,440	177,000,704	(92,026,620)		(92,026,620)
Business-type activities:							
GDB Operating Fund	402,187,330	36,826,367	638,403,147			273,042,184	273,042,184
Housing Finance Authority	98,865,169	16,758,055	60,902,960			(21,204,154)	(21,204,154)
Tourism Development Fund	238,885,291	3,223,638	14,898,456			(220,763,197)	(220,763,197)
Public Finance Corporation	4,095	152,895	1,173			149,973	149,973
Capital Fund	38,356	350	150			(37,856)	(37,856)
Development Fund	2,355,211		304,182			(2,051,029)	(2,051,029)
Other nonmajor funds	108,842		2,521			(106,321)	(106,321)
Total business-type activities	742,444,294	56,961,305	714,512,589			29,029,600	29,029,600
Total	$ 1,016,155,058	$ 56,961,305	$ 719,196,029	$ 177,000,704	(92,026,620)	29,029,600	(62,997,020)
TRANSFERS IN (OUT) — Net					81,913,928	(81,913,928)	-
CHANGE IN NET ASSETS					(10,112,692)	(52,884,328)	(62,997,020)
NET ASSETS (DEFICIENCY) — Beginning of year					(35,606,163)	2,619,748,185	2,584,142,022
NET ASSETS (DEFICIENCY) — End of year					$ (45,718,855)	$ 2,566,863,857	$ 2,521,145,002

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, 2012

	HUD Programs	ARRA Funds	Affordable Housing Mortgage Subsidy Program Stage 7	My New Home Program	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:							
Due from other funds	$ -	$ -	$ -	$ -	$ 381,894	$ (303,809)	$ 78,085
Restricted:							
Cash and due from banks	1,319,554		2,733		15,779,929		17,102,216
Deposits placed with banks				4,570,892	4,607,627		9,178,519
Due from federal government	1,289,279				11,906,503		13,195,782
Investments and investment contracts			20,722,916		43,121,091		63,844,007
Due from other funds	199,818	259	49,440	12,190,147	68,366,219		80,805,883
Interest and other receivables	3,112		383,210	83,030	104,995		574,347
TOTAL	$ 2,811,763	$ 259	$ 21,158,299	$ 16,844,069	$ 144,268,258	$ (303,809)	$ 184,778,839
LIABILITIES:							
Due to other funds	$ 1,344,111	$ -	$ 40,945,364	$ 45,671,613	$ 95,288,721	$ (303,809)	$ 182,946,000
Restricted — accounts payable and accrued liabilities	1,467,652	259	686,492	19,439,663	22,508,204		44,102,270
Deferred revenue					2,772,782		2,772,782
Total liabilities	2,811,763	259	41,631,856	65,111,276	120,569,707	(303,809)	229,821,052
FUND BALANCES (DEFICIT):							
Restricted for affordable housing programs					83,248,941		83,248,941
Unassigned			(20,473,557)	(48,267,207)	(59,550,390)		(128,291,154)
Total fund balances (deficit)	-	-	(20,473,557)	(48,267,207)	23,698,551	-	(45,042,213)
TOTAL	$ 2,811,763	$ 259	$ 21,158,299	$ 16,844,069	$ 144,268,258	$ (303,809)	$ 184,778,839

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund deficit	$ (45,042,213)
Deferred debt issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	36,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	19,034
Bonds and notes payable are not due and payable in the current period and therefore are not reported in the funds	(3,426,866)
Accrued interest payable not due and payable in the current period	(78,396)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	2,772,782
Net deficiency of governmental activities	$ (45,718,855)

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 (DEFICIT) - GOVERNMENTAL FUNI
FOR THE YEAR ENDED JUNE 30, 2012

	HUD Programs	ARRA Funds	Affordable Housing Mortgage Subsidy Program Stage 7	My New Home Program	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:						
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ -	$ -	$ 2,001,956	$ -	$ 1,087,207	$ 3,089,163
Intergovernmental — federal government	133,780,256	21,198,803			18,483,629	173,462,688
Interest on investments			1,477,563	148,509	3,143,654	4,769,726
Net decrease in fair value of investments					(86,286)	(86,286)
Other	4,374		3,273	1,123,296	1,121,289	2,252,232
Total revenues	133,784,630	21,198,803	3,482,792	1,271,805	23,749,493	183,487,523
EXPENDITURES:						
Current:						
General government and other	5,047,524		45,304		3,167,271	8,260,099
Housing assistance programs	128,737,106	21,198,803	1,410,471	68,539,537	42,326,751	262,212,668
Debt service:						
Principal			1,711,322			1,711,322
Interest			923,443	635,000	1,837,864	3,396,307
Total expenditures	133,784,630	21,198,803	4,090,540	69,174,537	47,331,886	275,580,396
DEFICIENCY OF REVENUES UNDER EXPENDITURES	-	-	(607,748)	(67,902,732)	(23,582,393)	(92,092,873)
OTHER FINANCING SOURCES (USES):						
Issuance of long-term debt			3,575,390			3,575,390
Payment to refunded bonds escrow agent			(3,099,914)			(3,099,914)
Transfers-in				50,433,835	82,172,600	132,606,435
Transfers-out					(50,692,507)	(50,692,507)
Total other financing sources	-	-	475,476	50,433,835	31,480,093	82,389,404
NET CHANGE IN FUND BALANCES (DEFICIT)	-	-	(132,272)	(17,468,897)	7,897,700	(9,703,469)
FUND BALANCES (DEFICIT) — Beginning of year			(20,341,285)	(30,798,310)	15,800,851	(35,338,744)
FUND BALANCES (DEFICIT) — End of year	$ -	$ -	$ (20,473,557)	$ (48,267,207)	$ 23,698,551	$ (45,042,213)

Amounts reported for governmental activities in the statement of net assets are different because:	
Net change in fund balances (deficit) - total governmental funds	$ (9,703,469)
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.	1,562,805
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	(1,803,379)
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount is the depreciation for the year.	(22,677)
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.	(145,972)
Change in net assets of governmental activities.	$ (10,112,692)

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, 2012

ASSETS	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
CURRENT ASSETS:									
Cash and due from banks	$ 69,286,860	$ 5,031,473	$ 10,768,311	$ 1,192,889	$ -	$ 10,146,592	$ 2,454,850	$ (28,606,414)	$ 70,274,561
Federal funds sold and securities purchased under agreements to resell	477,900,000								477,900,000
Deposits placed with banks	905,000,000	92,549,306	13,375,816					(101,482,333)	909,442,789
Investments and investment contracts	345,830,393		5,110,786		213,407				351,154,586
Loans receivable, net	2,204,052,155	27,750,000	1,091,664						2,232,893,819
Accrued interest receivable	139,351,208	1,775,714	743,855	187	16	27,582	324	(9,390,749)	132,508,137
Other current receivables	12,317,199	983,067	358,891			10,275	60		13,669,492
Other current assets	1,186,347	65,606	154						1,252,107
Due from governmental funds	152,241,404	30,704,596							182,946,000
Restricted:									
Cash and due from banks		13,840,426						(13,152,947)	687,479
Deposits placed with banks		77,602,460						(9,639,782)	67,962,678
Investments and investment contracts	211,735,842	16,930,567							228,666,409
Accrued interest receivable		1,985,248						(21,144)	1,964,104
Other current receivables		151,030							151,030
Total current assets	4,518,901,408	269,369,493	31,449,477	1,193,076	213,423	10,184,449	2,455,234	(162,293,369)	4,671,473,191
NONCURRENT ASSETS:									
Restricted:									
Investments and investment contracts	736,377,587	401,770,179							1,138,147,766
Loans receivable, net		49,833,302							49,833,302
Real estate available for sale		1,702,014							1,702,014
Other assets		3,215,006							3,215,006
Investments and investment contracts	3,358,073,973	18,188,384	221,324,544			3,615,209			3,601,202,110
Loans receivable, net	6,054,307,653	212,167,752	228,005,206			6,675,000		(409,779,213)	6,091,376,398
Real estate available for sale	105,497,419	624,898							106,122,317
Capital assets:									
Land and other nondepreciable assets	76,135,540	8,880,000							85,015,540
Other capital assets	8,707,460	2,476,409							11,183,869
Other receivables	62,045,359								62,045,359
Other assets	36,988,691		289,784						37,278,475
Total noncurrent assets	10,438,133,682	698,857,944	449,619,534	-	-	10,290,209	-	(409,779,213)	11,187,122,156
TOTAL ASSETS	$14,957,035,090	$ 968,227,437	$481,069,011	$ 1,193,076	$ 213,423	$ 20,474,658	$ 2,455,234	$ (572,072,582)	$15,858,595,347

See notes to basic financial statements.

(Continued)

BALANCE SHEET — ENTERPRISE FUNDS
AS OF JUNE 30, 2012

LIABILITIES AND NET ASSETS (DEFICIENCY)	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 4,000,688,604	$ -	$ -	$ -	$ -	$ -	$ -	$ (53,558,930)	$ 3,947,129,674
Certificates of deposit	1,855,784,448							(111,122,115)	1,744,662,333
Securities sold under agreements to repurchase	884,484,334								884,484,334
Accrued interest payable	48,447,521	78,381	9,200,349					(9,411,893)	48,314,358
Accounts payable and accrued liabilities	74,303,828	15,220,872	14,174,868	53,856	19,713	65,154	33,469	11,799,569	115,671,329
Allowance for losses on guarantees and letters of credit			13,507,190			1,030,000			14,537,190
Due to governmental funds	80,805,883	78,085							80,883,968
Participation agreement payable			866,667						866,667
Notes payable	569,648,281								569,648,281
Total current liabilities payable from unrestricted assets	7,514,162,899	15,377,338	37,749,074	53,856	19,713	1,095,154	33,469	(162,293,369)	7,406,198,134
Current liabilities payable from restricted assets:									
Accrued interest payable		532,586							532,586
Accounts payable and accrued liabilities		36,997,798							36,997,798
Bonds, notes and mortgage-backed certificates payable		33,879,591							33,879,591
Total current liabilities	7,514,162,899	86,787,313	37,749,074	53,856	19,713	1,095,154	33,469	(162,293,369)	7,477,608,109
Noncurrent liabilities:									
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	375,142,038								375,142,038
Allowance for losses on guarantees and letters of credit			78,424,136						78,424,136
Accounts payable and accrued liabilities	1,979,703		543,254						2,522,957
Participation agreement payable			24,338,889						24,338,889
Bonds and notes payable	4,995,353,470	3,129,245	406,649,968					(409,779,213)	4,995,353,470
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance		4,299,046							4,299,046
Bonds, notes, and mortgage-backed certificates payable		334,042,845							334,042,845
Total noncurrent liabilities	5,372,475,211	341,471,136	509,956,247	-	-	-	-	(409,779,213)	5,814,123,381
Total liabilities	12,886,638,110	428,258,449	547,705,321	53,856	19,713	1,095,154	33,469	(572,072,582)	13,291,731,490
NET ASSETS (DEFICIENCY)									
Invested in capital assets	84,843,000	11,356,409							96,199,409
Restricted for:									
Mortgage loan insurance		62,761,594							62,761,594
Affordable housing programs		91,492,278							91,492,278
Other housing programs		3,024,494							3,024,494
Unrestricted	1,985,553,980	371,334,213	(66,636,310)	1,139,220	193,710	19,379,504	2,421,765		2,313,386,082
Total net assets (deficiency)	2,070,396,980	539,968,988	(66,636,310)	1,139,220	193,710	19,379,504	2,421,765	-	2,566,863,857
TOTAL LIABILITIES AND NET ASSETS	$ 14,957,035,090	$ 968,227,437	$ 481,069,011	$ 1,193,076	$ 213,423	$ 20,474,658	$ 2,455,234	$ (572,072,582)	$ 15,858,595,347

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 (DEFICIENCY) — ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Total
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold and securities purchased under agreements to resell	$ 1,888,803	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,888,803
Interest income on deposits placed with banks	1,288,178	1,443,131	88,495	1,173		10,560	2,521	2,834,058
Interest and dividend income on investments and investment contracts	86,511,538	24,595,146	1,901,021		150	320,976		113,328,831
Net increase (decrease) in fair value of investments	60,796,313	16,942,104	542,903			(27,354)		78,253,966
Total investment income	150,484,832	42,980,381	2,532,419	1,173	150	304,182	2,521	196,305,658
Interest income on loans receivable:								
Public sector	487,421,301							487,421,301
Private sector	497,014	17,922,579	12,366,037					30,785,630
Total interest income on loans receivable	487,918,315	17,922,579	12,366,037	-	-	-	-	518,206,931
Total investment income and interest income on loans receivable	638,403,147	60,902,960	14,898,456	1,173	150	304,182	2,521	714,512,589
Noninterest income:								
Fiscal agency fees	24,947,376	76,204						25,023,580
Commitment, services, guarantee and other	11,071,893	11,561,042	3,187,937					25,820,872
Mortgage loan insurance premiums		4,300,523						4,300,523
Other income	807,098	820,286	35,701	152,895	350			1,816,330
Total noninterest income	36,826,367	16,758,055	3,223,638	152,895	350	-	-	56,961,305
Total operating revenues	675,229,514	77,661,015	18,122,094	154,068	500	304,182	2,521	771,473,894
OPERATING EXPENSES:								
Provision for loan losses		3,315,891	153,132,185			1,380,316		157,828,392
Interest expense:								
Deposits	41,922,934							41,922,934
Securities sold under agreements to repurchase	5,800,820							5,800,820
Commercial paper	24,000							24,000
Certificates of indebtedness	8,865							8,865
Bonds, notes and mortgage-backed certificates	286,647,674	33,614,008	15,657,403					335,919,085
Total interest expense	334,404,293	33,614,008	15,657,403	-	-	-	-	383,675,704
Noninterest expenses:								
Salaries and fringe benefits	26,169,528	9,738,695	101,851				59,777	36,069,851
Depreciation and amortization	1,031,668	1,022,126						2,053,794
Occupancy and equipment costs	3,278,769	2,608,496	36					5,887,301
Legal and professional fees	10,746,427	7,142,354	1,677,358	4,095	35,800	41,573	46,124	19,693,731
Office and administrative	1,007,316	1,033,643	36,050		2,076			2,079,085
Subsidy and trustee fees	50,152	587,477						637,629
Provision for losses on guarantees and letters of credit			68,276,128			933,322		69,209,450
Provision for losses on mortgage loan insurance		627,039						627,039
Other	13,050,710	7,223,041	4,280		480		2,941	20,281,452
Total noninterest expenses	55,334,570	29,982,871	70,095,703	4,095	38,356	974,895	108,842	156,539,332
Total operating expenses	389,738,863	66,912,770	238,885,291	4,095	38,356	2,355,211	108,842	698,043,428
OPERATING INCOME (LOSS)	285,490,651	10,748,245	(220,763,197)	149,973	(37,856)	(2,051,029)	(106,321)	73,430,466
NONOPERATING EXPENSES:								
Contributions to Cooperative Development Investment Trust Fund and others	(12,448,467)	(14,500)						(12,462,967)
Loss on early extinguishment of debt		(31,937,899)						(31,937,899)
TOTAL NONOPERATING EXPENSES	(12,448,467)	(31,952,399)						(44,400,866)
TRANSFERS-IN	1,512,242	21,055,778					100,000	22,668,020
TRANSFERS-OUT	(100,000)	(104,481,948)						(104,581,948)
CHANGE IN NET ASSETS	274,454,426	(104,630,324)	(220,763,197)	149,973	(37,856)	(2,051,029)	(6,321)	(52,884,328)
NET ASSETS — Beginning of year	1,795,942,554	644,599,312	154,126,887	989,247	231,566	21,430,533	2,428,086	2,619,748,185
NET ASSETS (DEFICIENCY) — End of year	$2,070,396,980	$539,968,988	$ (66,636,310)	$1,139,220	$ 193,710	$ 19,379,504	$ 2,421,765	$2,566,863,857

See notes to basic financial statements.

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, 2012

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from interest on housing program loans	$ -	$ 12,043,640	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,043,640
Cash paid for housing program loans originated		(87,180,764)							(87,180,764)
Principal collected on housing program loans		61,127,586							61,127,586
Guarantee fees collected			4,209,982			49,816			4,259,798
Payment of guarantees						(1,403,322)			(1,403,322)
Cash received from other operating noninterest revenues	45,685,360	13,871,741	35,549	152,895	350		212		59,746,107
Cash paid for other operating noninterest expenses	(36,128,870)	(18,709,910)	(205,193)	(198)	(30,057)	(41,071)	(123,612)	9,460,889	(45,778,022)
Cash received from mortgage loans insurance premiums		5,775,539							5,775,539
Due from/to governmental funds	13,043,150	32,420,257							45,463,407
Net cash provided by (used in) operating activities	22,599,640	19,348,089	4,040,338	152,697	(29,707)	(1,394,577)	(123,400)	9,460,889	54,053,969
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions to others	(12,448,467)	(14,500)							(12,462,967)
Transfers-in		1,619,777					100,000		1,719,777
Transfers-out	(100,000)	(101,694,033)							(101,794,033)
Net increase (decrease) in:									
Deposits	170,972,578							(6,397,423)	164,575,155
Certificates of deposit	21,974,789							326,696,849	348,671,638
Certificates of indebtedness	(4,300,000)								(4,300,000)
Proceeds from issuance of securities sold under agreements to repurchase	15,561,953,376								15,561,953,376
Payment of securities sold under agreements to repurchase	(15,648,287,592)								(15,648,287,592)
Proceeds from issuance of bonds and notes	5,082,099,969	9,602,190						(422,190)	5,091,279,969
Repayments of bonds, notes and mortgage-backed certificates	(4,999,098,000)	(329,190,426)	(1,494,444)					700,000	(5,329,082,870)
Payment of debt issue costs	(24,420,885)	(105,148)							(24,526,033)
Payment on early extinguishment of bonds payable in excess of principal balance		(31,497,340)							(31,497,340)
Interest paid	(286,926,565)	(21,231,992)	(4,345,816)					4,519,179	(307,985,194)
Net cash provided by (used in) noncapital financing activities	(138,580,796)	(472,511,472)	(5,840,260)	-	-	-	100,000	325,096,415	(291,736,113)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Purchase of capital assets	(17,969,627)	(395,562)							(18,365,189)

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, 2012

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold and securities purchased under agreements to resell	$ (389,050,000)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (389,050,000)
Deposits placed with banks	(348,983,053)	310,228,174	24,896,855					(290,297,953)	(304,155,977)
Purchases of investments	(12,568,511,121)	(191,863,907)	(80,051,424)		(350)				(12,840,426,802)
Proceeds from sales and redemptions of investments	12,556,895,916	328,840,167	67,997,570		30,057			(36,398,895)	12,917,364,815
Interest and dividends received on investments	83,218,893	25,007,047	1,569,680	1,072		358,384	2,522	(859,232)	109,298,366
Interest received on other than housing program loans	563,996,981	312,039	1,158,015					(3,659,947)	561,807,088
Origination of other than housing program loans	(4,938,848,033)	(17,968,000)	(26,821,918)					422,190	(4,983,215,761)
Fees collected on other than housing program loans		9,089,332							9,089,332
Principal collected on other than housing program loans	4,901,575,622		1,934,444					(700,000)	4,902,810,066
Proceeds from sale of real estate available for sale	1,218,750	1,778,668							2,997,418
Disbursements for acquisition and improvements to real estate available for sale		(2,723,191)							(2,723,191)
Net cash provided by (used in) investing activities	(138,486,045)	462,700,329	(9,316,778)	1,072	29,707	358,384	2,522	(331,493,837)	(16,204,646)
NET CHANGE IN CASH AND DUE FROM BANKS	(272,436,828)	9,141,384	(11,116,700)	153,769		(1,036,193)	(20,878)	3,063,467	(272,251,979)
CASH AND DUE FROM BANKS — Beginning of year	341,723,688	9,730,515	21,885,011	1,039,120		11,182,785	2,475,728	(44,822,828)	343,214,019
CASH AND DUE FROM BANKS — End of year	$ 69,286,860	$ 18,871,899	$ 10,768,311	$ 1,192,889	$ -	$10,146,592	$2,454,850	$ (41,759,361)	$ 70,962,040
RECONCILIATION TO ENTERPRISE FUNDS BALANCE SHEET:									
Cash – unrestricted	$ 69,286,860	$ 5,031,473	$ 10,768,311	$ 1,192,889	$ -	$10,146,592	$2,454,850	$ (28,606,414)	$ 70,274,561
Cash – restricted		13,840,426						(13,152,947)	687,479
TOTAL CASH AT YEAR END	$ 69,286,860	$ 18,871,899	$ 10,768,311	$ 1,192,889	$ -	$10,146,592	$2,454,850	$ (41,759,361)	$ 70,962,040

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, 2012

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:									
Operating income (loss)	$ 285,490,651	$ 10,748,245	$ (220,763,197)	$ 149,973	$ (37,856)	$ (2,051,029)	$ (106,321)	$ -	$ 73,430,466
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(89,688,519)	(26,038,277)	(1,989,516)	(1,172)	(150)	(331,536)	(2,521)		(118,051,691)
Interest income on other than housing program loans	(487,918,315)		(12,366,037)						(500,284,352)
Capitalized interest on housing program loans		(5,690,001)							(5,690,001)
Interest expense	334,404,293	33,614,008	15,657,403						383,675,704
Provision for loan losses		3,315,891	153,132,185			1,380,316			157,828,392
Provision for losses on guarantees and letters of credit			68,276,128			933,322			69,209,450
Payment of guarantees						(1,403,322)			(1,403,322)
Net decrease (increase) in fair value of investments	(60,796,313)	(16,942,104)	(542,903)			27,354			(78,253,966)
Provision for losses on real estate available for sale	9,895,550	1,458,138							11,353,688
Provision for losses on mortgage loan insurance		627,039							627,039
Credit for losses on other assets	(1,000,000)								(1,000,000)
Loss on sale of real estate held for sale		681,875							681,875
Depreciation and amortization	1,031,668	1,022,126							2,053,794
Origination of housing program loans		(87,180,764)							(87,180,764)
Principal collected on housing program loans		61,127,586							61,127,586
Changes in operating assets and liabilities:									
Increase in interest receivable on housing program loans		(188,939)							(188,939)
Decrease (increase) in other assets	8,858,993	1,211,262	(152)				(60)		10,070,043
Increase (decrease) in other liabilities	9,278,482	9,161,747	2,636,427	3,896	8,299	50,318	(14,498)	9,460,889	30,585,560
Decrease in due from/to governmental funds	13,043,150	32,420,257							45,463,407
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 22,599,640	$ 19,348,089	$ 4,040,338	$ 152,697	$ (29,707)	$ (1,394,577)	$ (123,400)	$ 9,460,889	$ 54,053,969

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, 2012

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor Funds	Eliminations	Total Enterprise Funds
Noncash investing and noncapital financing activities:									
Accretion of discount and capitalized interest on investment securities and deposits placed with banks	$ 4,409,125	$ 2,848,738	$ 363,923	$ -	$ 153	$ -	$ -	$ (494,693)	$ 7,127,246
Capitalized interest on loans and other	20,453,740	5,690,000	11,858,202					(7,833,492)	30,168,450
Mortgage loans issued not requiring cash disbursements		9,370,000							9,370,000
Decrease in fair value of real estate held for sale transferred to other receivables	(9,067,500)								(9,067,500)
Amortization (accretion) of premium (discount) on:									
Deposits	(494,693)							494,693	
Bonds, notes and mortgage-backed securities payable	1,072,684	(11,995,597)						400,983	(10,521,930)
Capitalized interest on notes payable			(7,833,492)					7,833,492	
Increase (decrease) in fair value of investments	60,796,313	16,942,104	542,903			(27,354)		(400,983)	77,852,983
Amortization of bond issue cost (included in interest expense)	28,879,126	862,438							29,741,564
Amortization of deferred loss		281,506							281,506
Investments purchased not yet paid	24,957,000		10,896,076						35,853,076
Debt settled with investments	(160,735,247)	160,735,247							
Debt settled with loans	2,792,834	(2,792,834)							
Transfer of investments	1,512,242	(1,512,242)							
Interfund transfer of mortgage loans receivable to other real estate held for sale		267,525							267,525
Interfund transfer of mortgage loans receivable		(19,436,000)							(19,436,000)
Interfund transfer of interest receivable		(397,100)							(397,100)
Interfund transfer of internal balance		425,291							425,291
Interfund transfer of liabilities		10,356							10,356

(Concluded)

See notes to basic financial statements.

1. REPORTING ENTITY

Government Development Bank for Puerto Rico (the "Bank" or "GDB") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 17 of September 23, 1948, as amended. The Bank's principal functions are to act as fiscal agent 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 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, 2012.

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, or used to provide subsidies to such families for the acquisition of their primary residences. The Housing Finance Authority is authorized by the U.S. Department of Housing and Urban Development ("HUD") to administer the U.S. Housing Act Section 8 Program in Puerto Rico 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. Effective July 1, 2010, the Housing Finance Authority was also authorized by HUD to administer the HOME Investment Partnerships Program.

The Housing Finance Authority, in conjunction with the Puerto Rico Department of Housing, was 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. On May 31, 2010, the board of directors of the Capital Fund authorized the transfer of its investments portfolio of approximately $72 million to the Tourism Development Fund. The transfer was completed on June 30, 2010. The Capital Fund's activities have been reduced significantly after June 30, 2010.

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 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 generally accepted accounting principles in the United States of America ("U.S. GAAP"), as applicable to governmental entities. The Bank follows Governmental Accounting Standards Board (GASB) statements under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in the preparation of its financial statements. The 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 do 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/expenditures 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 of 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 (deficit) consist of net assets (deficit) 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 the Education Assistance Corporation, which have been grouped as other nonmajor funds, has been reported as a separate major fund in the fund financial statements. In the case of the Housing Finance Authority, all of its activities not classified and reported as governmental funds have been reported as an enterprise fund.

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

- Nonspendable — amounts that cannot be spent because they are either not in a spendable form (such as inventories and prepaid amounts) or are legally or contractually required to be maintained intact.
- Restricted — amounts that can be spent only for specific purposes because of constraints imposed by external providers (such as grantors, bondholders, and higher levels of government), or imposed by constitutional provisions or enabling legislation.
- Committed — amounts that can be spent only for specific purposes determined by a formal action of the government's highest level of decision-making authority.
- Assigned — amounts the government intends to use for specific purposes that do not meet the criteria to be classified as restricted or committed.
- Unassigned — amounts that are available for any purpose.

When both restricted and unrestricted resources are available for use, it is the Bank's policy to use restricted resources first, and then, unrestricted resources as they are needed.

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's financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the HUD Programs, American Recovery and Reinvestment Act ("ARRA") Funds, Home Investment Partnerships ("HOME") Program and Closing Costs Assistance Program. Other revenues are considered to be measurable and available only when cash is received. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. 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, 2012 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 ARRA 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.

- Affordable Housing Mortgage Subsidy Program ("AHMSP") (Stage 7) — This special revenue fund is used to account for the proceeds of specific revenue sources under Stage 7 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under this stage, 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. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under this stage as of June 30, 2012.

- My New Home Program — This special revenue fund accounts for revenues provided by Act No. 122 of August 6, 2010, as amended, which assigned to the Housing Finance Authority, for a period of seven years, a portion of no less than 80% of the unreserved monies and other liquid funds abandoned or unclaimed in financial institutions that will be transferred to the general fund of the Commonwealth.

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

- AHMSP (Stages 2, 3, 6, 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, 8, 9, 10 and 11 of the AHMSP that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under these stages, the Housing Finance Authority provides 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 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, 2012.

- 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.

- 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 assist with the housing needs of those families living in hazard prone areas.

- HOME Program —This special revenue fund is used to account for the specific revenue sources related to the 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 families; (2) strengthening the abilities of state and local governments to design and implement strategies for achieving adequate supplies of decent, affordable housing; (3) providing financial and technical assistance to participating jurisdictions, including the development of model programs for affordable low-income housing; and (4) extending and strengthening partnerships among all levels of government and the private sector, including for-profit and nonprofit organizations, in the production and operation of affordable housing.

- Protecting Your Home Program — This special revenue fund accounts for mortgage payment subsidy for up to 18 months or $20,000, whichever is lower, and is intended to reduce the amount of home foreclosures among low and moderate-income families with recent financial difficulties. This loss mitigation program was financed with $20 million of excess funds from previous bond issuances under the AHMSP and the Housing Finance Authority internally generated funds.

- Closing Costs Assistance Program — This special revenue fund accounts for revenues received mainly from appropriations from the Commonwealth to provide subsidies to eligible individuals or families for the purchase of an eligible principal residence.

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 and its components units providing the services that correspond to their principal ongoing operations. Operating revenues are generated from lending, investing, banking and fiscal agency services, and other related activities. Operating expenses include interest expense, any provision for losses on loans, advances, letters of credit, or guarantees and all general and administrative expenses, among others. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Securities Purchased Under Agreements to Resell — The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent with whom the agreement is transacted. As of June 30, 2012, securities purchased under agreements to resell amounting to $200,000,000 were outstanding.

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

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

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

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

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $5.7 billion or 36% of the Bank's government-wide total assets as of June 30, 2012. These loans are expected to be collected from appropriations from, proceeds from bond issuances of, or revenues generated by the Commonwealth and/or its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past thirteen years and its credit ratings have been lowered. In addition, many of the Commonwealth's agencies and instrumentalities have had losses from operations during the past years. 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. Continuance of and/or significant negative changes in these factors may affect the ability of the Commonwealth and its agencies and instrumentalities to repay their outstanding loan balances with the Bank and accordingly, may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

Loans to municipalities amounted to approximately $2.1 billion or 14% of the Bank's government-wide total assets at June 30, 2012. These loans include approximately $1.3 billion at June 30, 2012, which are collateralized by a pledge of a portion of property tax assessments of each municipality. Loans pledged with property tax assessments include bonds and notes issued by Puerto Rico municipalities which are 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, loans to municipalities include $561 million at June 30, 2012, which are collateralized by a pledge of a portion of the municipal sales tax, which is deposited in special accounts with the Bank for the purpose of granting such loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality.

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 Puerto Rico Office of Management and Budget ("OMB") has included in the budget of the Commonwealth appropriations to assist the Commonwealth and certain of its agencies and instrumentalities requiring financial support in repaying their loans with the Bank. The Legislature of the Commonwealth (the "Legislature") has approved these appropriations, and such practice is anticipated to continue in the future. In addition, management's position is based on the fact that the Bank has been able to collect most of the loans to such public sector entities with proceeds of bonds or notes issued by the Commonwealth or its agencies and instrumentalities, including bonds issued by the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation" or "COFINA" by its Spanish acronym), a component unit of the Commonwealth. These public corporations and the Commonwealth have never defaulted on their respective bonds. The Bank has, in the past, collected the outstanding principal and interest at the contractual rate on loans repaid from Commonwealth's appropriations, or bond or note proceeds. 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.

Although management of the Bank believes that no losses of principal and interest will be incurred by the Bank with respect to most loans outstanding to the public sector at June 30, 2012, there can be no assurance that the director of OMB will include amounts for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank by the Commonwealth or public sector entities requiring the Commonwealth's support, or that the proceeds from any future bond or note issuances by the Sales Tax Corporation or certain public entities which have financed their capital improvement programs with the Bank, will be sufficient to cover the outstanding amount due to the Bank at June 30, 2012. In addition, 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 OMB, and the Legislature, the timing and amount of any financial assistance and bond proceeds to be used to repay certain public sector loans cannot be reasonably estimated by the Bank.

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

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

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

Pursuant to the legislation under which the Tourism Development Fund was created, the executive director of the Tourism Development Fund is required to certify each year to the director of the OMB the amount, if any, that is necessary to reimburse the Tourism Development Fund for disbursements made, as defined, in the previous year in excess of revenues collected ("net disbursement"). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the Tourism Development Fund, to modify the definition of net disbursement to include disbursements made by the Tourism Development Fund for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the Tourism Development Fund. However, Act No. 173 provides that such disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the executive director of the Tourism Development Fund determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a "realized loss"). The director of OMB has to include the amount subject to reimbursement in the general fund budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2012, 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. 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 expense. Gain or loss on sale of real estate available for sale is included within revenues or expenses in the accompanying statement of activities and within noninterest income or noninterest expense in the accompanying statement of revenues, expenses, and changes in net 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 probable 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. Capital assets are defined by the Bank as assets that have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years. Depreciation is charged to operations and included within expenses, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs which do not improve or extend the lives of the respective assets are charged to expense as incurred.

Estimated useful lives are as follows:

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

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.

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, or to refund such previously issued bonds. The bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investments thereon, are payable solely from the pledge and assignment of amounts due on the notes. Principal and interest on the notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature. The underlying notes represent debt of the issuing instrumentalities. The bonds are considered no-commitment debt, and therefore neither the bonds nor the notes purchased with the proceeds therefrom are presented in the accompanying basic financial statements.

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

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

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.

- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011.

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities,* which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 66, *Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62*, which is effective for periods beginning after December 15, 2012.

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is effective for periods beginning after June 15, 2013.

- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is effective for periods beginning after June 15, 2014.

- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is effective for periods beginning after December 15, 2013.

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, DEPOSITS PLACED WITH BANKS, AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2012. 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 $986.6 million mature within one year. Federal funds sold mature overnight and no collateral is required.

As of June 30, 2012, $1,333,293,036 of the depository bank balance of $1,352,112,012 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	$ 88,064,256	$ 87,628,026	$ 68,809,050
Deposits placed with banks	986,583,986	986,583,986	986,583,986
Federal funds sold	277,900,000	277,900,000	277,900,000
Total	$ 1,352,548,242	$ 1,352,112,012	$ 1,333,293,036

The carrying amount of securities purchased under agreements to resell at June 30, 2012 amounted to $200 million. These agreements mature during the following month. The average amount outstanding during the year amounted to approximately $80 million with the largest amount outstanding at any month-end amounting to approximately $200 million. The Bank's investment policies establish minimum amounts of acceptable collateral, as well as the fair value of the securities in collateral. The fair value of the collateral is reviewed daily and the margin amount adjusted accordingly. The collateral was held by the Bank's custodian agent in the Bank's name.

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

Unrestricted:	
Cash and due from banks	$ 70,274,561
Federal funds sold	277,900,000
Deposits placed with banks	909,442,789
Total unrestricted	1,257,617,350
Restricted:	
Cash and due from banks	17,789,695
Deposits placed with banks	77,141,197
Total restricted	94,930,892
Total	$ 1,352,548,242

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, 2012. 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	$ 40,010,535	$ -	$ -	$ -	$ 40,010,535
U.S. Treasury notes	17,211,095	762,861,646	50,121,095		830,193,836
U.S. sponsored agencies notes:					
Federal National Mortgage Association ("FNMA")		164,957,920	491,022,251	1,915,830	657,896,001
Federal Home Loan Bank ("FHLB")		384,426,888	246,076,823	24,957,000	655,460,711
Federal Home Loan Mortgage Corporation ("FHLMC")		174,710,260	101,343,000		276,053,260
Federal Farm Credit Bank ("FFCB")		69,292,027			69,292,027
Mortgage and asset-backed securities:					
Government National Mortgage Association ("GNMA")		1,115,796	8,638,017	248,200,953	257,954,766
Federal National Mortgage Association ("FNMA")			14,602,450	1,302,401,565	1,317,004,015
FHLMC			3,881,873	218,038,871	221,920,744
Interest-only strips				19,688,294	19,688,294
Other		181,965	44,603	98,533,831	98,760,399
Corporate debt:					
Caterpillar		7,599,205			7,599,205
United Parcel Services		2,113,920			2,113,920
General Electric	2,027,860	7,160,150			9,188,010
Wells Fargo		1,999,860			1,999,860
Walmart Stores		2,101,940			2,101,940
Andrew Mellon Foundation		3,204,300			3,204,300
American International Group	211,735,842				211,735,842
First Puerto Rico Family of Funds	114,920,000				114,920,000
Puerto Rico Fixed Income I	20,000,000				20,000,000
Puerto Rico Fixed Income II	20,000,000				20,000,000
Puerto Rico Fixed Income III	20,000,000				20,000,000
External investment pools—					
Fixed-income securities	125,053,707				125,053,707
Israel aid bonds		20,082,344	34,176,733		54,259,077
Nonparticipating investment contracts:					
Trinity Funding Co.				26,461,444	26,461,444
Citibank N.A.				17,628,800	17,628,800
Banco Popular de Puerto Rico				14,443,140	14,443,140
Banco Santander Puerto Rico				11,161,985	11,161,985
Monumental Life				7,135,226	7,135,226
U.S. Municipal notes	11,261,883	62,092,131	5,503,826	23,850,000	102,707,840
Commonwealth agency bonds	3,530,000			46,326,069	49,856,069
Total investments	$ 585,750,922	$ 1,663,900,352	$ 955,410,671	$ 2,060,743,008	5,265,804,953
External investment pools:					
Equity securities:					
Russell 1000 Growth Common Trust Fund					50,362,087
Global Opportunities Capital Appreciation Fund					13,112,708
Preferred securities/interests:					
Grupo Hima San Pablo					3,615,209
Desarrolladora del Norte					50,000,000
Other					119,921
Total					$ 5,383,014,878
Reconciliation to the government-wide					
statement of net assets:					$ 3,952,356,696
Unrestricted investments and investment contracts					1,430,658,182
Restricted investments and investment contracts					$ 5,383,014,878
Total					

Investments in fixed-income external investment pools had an average maturity of less than 60 days. These investments include $119,190,902 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, 2012, the total amount of $24,179,375 of the Bank's investment in corporate debt maturing over one year, bear a fixed interest rate. Also, at June 30, 2012, approximately 13.6% of the Bank's investments in mortgage and asset-backed securities were held by trustees in connection with bonds issued by the Housing Finance Authority, the terms of which generally provide for early redemption of the bonds if the securities are early repaid.

During fiscal year 2012, the Bank invested in interest-only strips to maximize yields and as a protection against a rise in interest rates. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to increased prepayments by mortgages, which may result from a decline in interest rates. If interest rates decline, the value of interest-only strips declines. If interest rates increase, the value of interest-only strips increases.

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, 2012 are as follows:

	Credit Risk				
	Rating				
Securities Type	**AAA to A-**	**BBB**	**B**	**Not Rated**	**Total**
U.S. sponsored agencies notes:					
FNMA	$ 657,896,001	$ -	$ -	$ -	$ 657,896,001
FHLB	655,460,711				655,460,711
FHLMC	276,053,260				276,053,260
FFCB	69,292,027				69,292,027
Mortgage-backed and asset-backed securities:					
FNMA	1,317,004,015				1,317,004,015
FHLMC	221,920,744				221,920,744
Interest-only strips	19,688,294				19,688,294
Other	422,309		98,338,090		98,760,399
Corporate debt	201,127,235	211,735,842			412,863,077
External investment pools —					
Fixed-income securities	125,053,707				125,053,707
Israel aid bonds	54,259,077				54,259,077
Nonparticipating investment contracts	76,830,595				76,830,595
U.S. municipal notes	102,707,840				102,707,840
Commonwealth agency bonds			46,326,069	3,530,000	49,856,069
Total	$3,777,715,815	$ 211,735,842	$ 144,664,159	$ 3,530,000	$4,137,645,816

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2012 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, 2012, 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	$ 367,922,436
Securities sold under agreements to repurchase	884,484,334

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at June 30, 2012 consist of the outstanding balance of credit facilities granted to the following (in thousands):

	GDB Operating Fund (1)	Housing Finance Authority	Tourism Development Fund	Development Fund	Total
Public corporations and agencies	$5,699,804	$ -	$ -	$ -	$5,699,804
Municipalities	2,145,044				2,145,044
Allowance for loan losses	(4,000)				(4,000)
Total loans to public sector	7,840,848	-	-	-	7,840,848
Private sector	7,997	356,438	469,044	17,375	850,854
Allowance for loan losses	(264)	(39,191)	(239,947)	(10,700)	(290,102)
Deferred origination fees		(27,496)			(27,496)
Total loans to private sector	7,733	289,751	229,097	6,675	533,256
Balance — end of year	$7,848,581	$289,751	$229,097	$ 6,675	$8,374,104

(1) Excluding loans to component units.

Reconciliation to the government-wide statement of net assets:	
Unrestricted loans receivable — net	$8,324,270
Restricted loans receivable — net	49,834
Total	$8,374,104

For the year ended June 30, 2012, public sector loan originations and collections amounted to approximately $4.9 billion each.

Public sector loans amounting to approximately $859.1 million as of June 30, 2012 were delinquent by 90 days or more or had matured, however, most of these loans are repaid from the Commonwealth's general fund through legislative appropriations and, accordingly, management expects to fully collect them.

Public sector loans classified as nonaccrual amounted to approximately $26.9 million at June 30, 2012. Interest income that would have been recorded if such nonaccrual loans had been accruing in accordance with their original terms was approximately $1.6 million in fiscal year 2012. No interest was collected on these loans during the year ended June 30, 2012.

At June 30, 2012, loans to public corporations and agencies of the Commonwealth amounting to $5,699,804 are repayable from the following sources (in thousands):

Repayment Source	Amount
Proceeds from future bond issuances of public corporations	$ 1,538,175
Operating revenues of public entities other than the Commonwealth	1,043,636
Legislative appropriations — previously from issuance of Commonwealth's general obligation bonds	1,123,959
Legislative appropriations — previously from COFINA	758,397
Legislative appropriations — other	1,157,463
Other — including funds from federal grants	78,174
Total	$ 5,699,804

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 government-wide 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's general obligation bonds or revenue bonds issued by the corresponding agency and, in recent years, loans to finance the Commonwealth's budget deficit payable from COFINA, uncollected taxes and annual appropriations made by the Legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $5.7 billion or 36% of the Bank's government-wide total assets at June 30, 2012.

At June 30, 2012, approximately $3.0 billion 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. Since 2000, the Commonwealth's recurring expenditures have exceeded its recurring revenues. These shortfalls were partially covered with loans from the Bank and other nonrecurring revenues. In addition, the Commonwealth has preliminary estimated that its expenditures will exceed its revenues for fiscal year 2012. From fiscal year 2003 to 2008, the Bank granted loans to the Commonwealth aggregating to $1,964 million to cover part of the Commonwealth's deficit. As of June 30, 2012, the outstanding principal amount of these loans was $223 million.

During fiscal year 2012, the Bank received $65.1 million and $91.5 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. The Commonwealth's general fund budget for fiscal year 2013 includes $65.1 million and $97.9 million of appropriations to repay principal of and interest on public sector loans whose repayment source was originally from COFINA and from future issuances of Commonwealth's general obligations bonds, respectively. These appropriations are based on payment schedules proposed by the Bank, which are based on a period of amortization of 30 years each, at contractual interest rates. The Bank will annually submit to the OMB, to be included in the Commonwealth's budget for legislative approval in each subsequent fiscal year, an amount established in the payment schedules with the terms stated above. The Bank expects that future appropriations will be approved by the Legislature of the Commonwealth to comply with such schedules. However, there can be no assurance that the director of OMB will include an amount for loan repayments in the Commonwealth's budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank on these loans.

In addition, at June 30, 2012, approximately $2.7 billion of public sector loans are payable from proceeds from future bond issuances and operating income of public corporations of the Commonwealth. The Bank lends funds to such public corporations for capital improvements and operating needs. The loans for capital improvements generally are construction loans and are repaid from the proceeds of future bond issuances of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from loans provided by sources other than the Bank, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from the Bank to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. The participation of certain of these 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.

Starting in 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. As of June 30, 2012, management of the Bank determined that all public corporations and agencies have complied with the material terms and conditions of their respective agreements.

As of June 30, 2012, the Bank has extended various credit facilities to the Puerto Rico Highways and Transportation Authority ("HTA") for, among other, capital improvement programs, working capital, debt service and collateral posting requirements. The outstanding balance of such facilities amounts to \$1.9 billion, including accrued interest of \$30.5 million, which represent 12% and 76%, of the Bank's total governmental-wide assets and net assets, respectively, at June 30, 2012.

The Bank, in its ordinary course of business, provides interim lines of credit to public corporations like HTA. These lines of credit have historically been repaid from bond issuances of each public corporation, once they regain or have access to the capital markets. No public corporation has ever defaulted on its obligations with the Bank.

HTA has reported net operating losses during each of the three fiscal years in the period ended June 30, 2011, and, as a result, the Bank has been partially financing its operations through credit facilities. In fiscal year 2010, HTA entered into a fiscal oversight agreement with the Bank, whereby the Bank, among other things, imposes conditions on the extensions of credit to HTA and continually monitors its finances. HTA expects to repay the credit facilities due to the Bank with proceeds from the issuance of bonds within the next two fiscal years. On December 13, 2012, Moody's Investors Service ("Moody's") downgraded HTA's transportation revenue bonds from Baa1 to Baa3, HTA's highway revenue bonds from A3 to Baa2, and HTA's subordinate transportation revenue bonds from Baa2 to Ba1.

Managements of HTA and the Bank are working with various alternatives for HTA to gain access to the bond capital market, including, among other, a new trust indenture, revenue increasing measures, and expense reduction measures. If such alternatives are not materialized, HTA could default on its credit facilities with the Bank, which may have a material adverse effect on the financial condition, operating results and liquidity of the Bank. The Bank's management, however, believes that in case such alternatives are not materialized, the Commonwealth would provide financial support to HTA in order to repay its outstanding borrowings with the Bank.

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 the payment terms of certain loans to other 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.

Due mainly to the Commonwealth's financial situation and the unfunded status of the Puerto Rico Government Employees Retirement Systems, which represent a challenge that could affect Puerto Rico's credit rating, major credit rating agencies, such as Moody's, Standards & Poor's Rating Services (S&P), and Fitch, Inc. ("Fitch") have downgraded the Commonwealth's credit ratings during the past years.

At June 30, 2012, the Commonwealth's general obligation and appropriation debt is rated "Baa1" with a negative outlook by Moody's, "BBB" with a negative outlook by S&P, and "BBB+" with a stable outlook by Fitch. Subsequent to June 30, 2012, Moody's downgraded the rating to Baa3 and maintained its negative outlook.

In taking this rating action, Moody's stated the downgrade reflects the continued financial deterioration of the severely underfunded retirement systems, increasing debt levels, continued weak economic trend, and weak finances. Moody's negative outlook reflects the stress the Commonwealth will face in the next few years as it continues to address the underfunding of the retirement systems from an already weak financial and economic position.

On March 9, 2009, the Legislature of the Commonwealth enacted Act. No. 7, which among other, 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 halt 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. 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 most of the loans to the public sector will be collected (including interest at the contractual interest rate), and, accordingly, no additional allowance for loan losses to the public sector is needed at June 30, 2012.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank, the Tourism Development Fund and the Development Fund to private enterprises in Puerto Rico, the activities of which are deemed to further the economic and tourism development of Puerto Rico. Loans to the private sector also include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico. These credit facilities, net of allowance for loan losses, amounted to approximately $533.3 million at June 30, 2012 of which approximately $289.8 million are mortgage loans for low and moderate-income housing units and approximately $229 million are for tourism projects.

Private sector loans classified as nonaccrual amounted to approximately $514 million at June 30, 2012. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $5 million in 2012. Interest collected on these loans amounted to approximately $1.2 million for the year ended June 30, 2012.

The following is a summary of private sector loans considered to be impaired as of June 30, 2012, and the related interest income for the year then ended (in thousands):

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Development Fund	Total
Recorded investment in impaired loans:					
Not requiring an allowance for loan losses	$ 118	$ 27,728	$ -	$ -	$ 27,846
Requiring an allowance for loan losses	264	44,559	423,552	17,375	485,750
Total recorded investment in impaired loans	$ 382	$ 72,287	$ 423,552	$ 17,375	$ 513,596
Related allowance for loan losses	$ 264	$ 30,598	$ 239,947	$ 10,700	$ 281,509
Average recorded investment in impaired loans	387	61,937	282,307	17,375	362,006
Interest income recognized on impaired loans	-	1,218	-	-	1,218

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2012 (in thousands):

	Enterprise Funds				
	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Development Fund	Total
Balance — beginning of year	$ 4,264	$ 35,655	$ 86,815	$ 9,320	$ 136,054
Provision for loan losses		3,316	153,132	1,380	157,828
Net recoveries		220			220
Balance — end of year	$ 4,264	$ 39,191	$ 239,947	$ 10,700	$ 294,102

6. DUE FROM FEDERAL GOVERNMENT

The Housing Finance Authority, as a public housing agency, is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under the HUD Programs fund. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to approximately $133.8 million during the year ended June 30, 2012. This amount includes approximately $5 million of administrative fees for services performed as contract administrator, which are reimbursed by HUD. As of June 30, 2012, the amounts due from federal government under the HUD Programs fund amounted to approximately $1.3 million.

During the year ended June 30, 2012, the Housing Finance Authority expended approximately $17 million of HOME Program funds, of which approximately $11.9 million are due from the federal government as of June 30, 2012. In accordance with the Housing Finance Authority's accounting policies, the Housing Finance Authority has deferred the recognition of revenue of approximately $2.8 million due from the federal government in the fund's financial statements as such amounts are not considered to be available. This amount has been recorded as deferred revenue in the accompanying balance sheet – governmental funds.

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

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

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

In April 2007, FEMA discontinued reimbursing the Housing Finance Authority's allowable costs based on the NSH Program's noncompliance with the scheduled dates for construction activities and case management. The DOH requested various extensions and reconsiderations. The last extension was approved by FEMA 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 NSH Program, the Housing Finance Authority was not able to fully comply with the terms of the extensions granted by FEMA. On September 30, 2011, the Housing Finance Authority provided FEMA and the GAR, the NSH Program's closeout documentation which was reviewed by FEMA.

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

Based on all these facts and that no reimbursements have been received from FEMA since April 2007, management has decided to establish an allowance for the $26 million due from FEMA at June 30, 2012.

7. REAL ESTATE AVAILABLE FOR SALE

Real estate available for sale at June 30, 2012 consisted of the following:

	Enterprise Funds		
	GDB Operating Fund	Housing Finance Authority	Total
Residential (1–4 units)	$ -	$ 13,599,641	$ 13,599,641
Commercial	128,513,982		128,513,982
Valuation allowance	(23,016,563)	(11,272,729)	(34,289,292)
Total real estate available for sale	$ 105,497,419	$ 2,326,912	$ 107,824,331

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

Unrestricted real estate available for sale	$ 106,122,317
Restricted real estate available for sale	1,702,014
Total	$ 107,824,331

The following is a summary of the activity in the valuation allowance for the year ended June 30, 2012:

	GDB Operating Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 13,121,013	$ 10,764,378	$ 23,885,391
Provision for possible losses	9,895,550	1,458,138	11,353,688
Write-offs		(949,787)	(949,787)
Balance — end of year	$ 23,016,563	$ 11,272,729	$ 34,289,292

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 subsequently obtained appraisals of the properties, which had resulted in a decrease in the appraised values of certain of such properties, net of estimated selling costs, of approximately $62 million at June 30, 2011, 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 receivables in the accompanying statement of net assets (deficiency)]. The interagency agreement provides that the agency of the Commonwealth shall transfer to the Bank additional properties to cover any deficiency in the properties values during a period of five years.

On October 16, 2011, the Bank obtained a commitment from the director of the OMB, whereby the OMB committed to pay $7.5 million to the Bank before December 31, 2011 to cover a portion of the outstanding balance at June 30, 2011. Such commitment also provided for the director of the OMB to include in the Commonwealth's general fund budget, for legislative approval, appropriations of approximately $3.8 million, plus interest at 7%, for the next 15 years to cover the remaining balance. During fiscal year 2012, several of these properties decreased in value by approximately $9 million which increased the receivable to approximately $71 million. However, in March 2012, the Bank received $9 million from the OMB, which reduced the receivable from the Commonwealth's agency to $62 million as of June 30, 2012. On October 31, 2012, the Bank received an amended commitment from the OMB, whereby the OMB commits to include in the Commonwealth's general fund budget, for legislative approval, appropriations of approximately $4.4 million, plus interest at 7%, for the next 14 years to cover this balance. The Legislature is not obligated to authorize such appropriations. Management of the Bank is of the opinion that it will receive properties or cash to cover such deficiency and, accordingly, believes that no valuation allowance on the receivable from the Commonwealth's agency is needed at June 30, 2012.

8. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2012, was as follows:

Governmental Activities:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets:				
Information systems	$ 66,329	$ -	$ -	$ 66,329
Office furniture and equipment	33,967			33,967
Vehicles	66,135			66,135
Total capital assets	166,431	-	-	166,431
Less accumulated depreciation and amortization for:				
Information systems	(35,494)	(17,436)	-	(52,930)
Office furniture and equipment	(23,094)	(5,241)		(28,335)
Vehicles	(66,132)			(66,132)
Total accumulated depreciation and amortization	(124,720)	(22,677)	-	(147,397)
Capital assets governmental activities — net	$ 41,711	$ (22,677)	$ -	19,034

Business Type - Activities

Capital assets not being depreciated — land	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Land	$ 2,845,000	$ -	$ 8,880,000	$ 11,725,000
Land under development	56,454,861	16,835,679		73,290,540
	59,299,861	16,835,679	8,880,000	85,015,540
Total capital assets not being depreciated				
Capital assets being depreciated:				
Building	8,988,048			8,988,048
Leasehold improvements	4,461,711	276,096	(22,655)	4,715,152
Information systems	2,031,588	447,660	(191,580)	2,287,668
Office furniture and equipment	2,712,691	242,976	(93,033)	2,862,634
Software	4,425,172	562,778	(724,947)	4,263,003
Vehicles	217,119			217,119
Total capital assets being depreciated	22,836,329	1,529,510	(1,032,215)	23,333,624
Less accumulated depreciation and amortization for:				
Building	(2,359,363)	(224,701)	-	(2,584,064)
Leasehold improvements	(2,176,140)	(464,357)	22,655	(2,617,842)
Information systems	(1,609,828)	(272,836)	191,580	(1,691,084)
Office furniture and equipment	(1,840,785)	(246,987)	93,033	(1,994,739)
Software	(2,946,573)	(834,621)	724,947	(3,056,247)
Vehicles	(195,487)	(10,292)		(205,779)
Total accumulated depreciation and amortization	(11,128,176)	(2,053,794)	1,032,215	(12,149,755)
Total capital assets being depreciated — net	11,708,153	(524,284)	-	11,183,869
Capital assets business type activities — net	$71,008,014	$ 16,311,395	$ 8,880,000	96,199,409
Total capital assets — net				$ 96,218,443

Land under development represents property owned by the Bank that is being developed for future government benefit. Specifically, as part of its functions of furthering the economic development of Puerto Rico, the Bank is developing the infrastructure and public spaces of the "Comunidad Río Bayamón Norte" as per the Master Plan approved by the Puerto Rico Planning Board. The infrastructure development includes the construction of the roads, sidewalks, electric, sanitary and sewer systems and an urban park with recreational area, clubhouse and tennis courts. As part of the development, the Bank is contributing to certain offsite improvements with the Puerto Rico Electric and Power Authority, the Puerto Rico Aqueduct and Sewer Authority and the Puerto Rico Highways and Transportation Authority. The development will have access to "Tren Urbano Jardines" Station. Management is evaluating the transfer of these improvements and structures to the corresponding governmental agency for the proper maintenance upon completion of the development.

The Housing Finance Authority maintained a line of credit of $50 million with a commercial bank to provide funds to the DOH to finance the operations of the "Revitalización de Santurce" Program. The program's objective was to rehabilitate and redevelop the Santurce sector in the Municipality of San Juan through purchase and expropriations of properties for redevelopment of commercial and residential project. The Housing Finance Authority entered into a collaborative agreement with the DOH under which it would finance the property acquisition efforts under the program. The funds for the DOH's property were withdrawn from the line of credit. Once the property was acquired, the DOH would immediately transfer ownership to the Housing Finance Authority to collateralize the line of credit. The DOH subsequently would enter into purchase agreements with developers that met the program's underlying objectives. The product of the sale of the properties to the developers would serve to repay the line of credit. However, due to the general real estate market conditions and lack of financing, the projects under which conditioned purchase agreements were subscribed were no longer feasible. In turn, the Housing Finance Authority repaid the outstanding balance in the line of credit and retained title to the properties held in trust in lieu of payment amounting to $8,880,000. As such, this balance is included as part of capital assets in the accompanying statement of net assets and balance sheet — enterprise funds.

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 $42 million in 2012.

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

Carrying amount at June 30, 2012	$ 884,484,334
Maximum amount outstanding at any month-end	1,962,901,456
Average amount outstanding during the year	1,268,238,012
Weighted average interest rate for the year	0.47%
Weighted average interest rate at year-end	0.81%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2012:

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 970,818,550	$ 15,561,953,376	$ 15,648,287,592	$ 884,484,334

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, 2012, 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, 2012:

	Balance	Issuances	Maturities	Balance	One Year
GDB Operating Fund	$ 4,300,000	$ -	$ 4,300,000	$ -	$ -

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, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities — Commonwealth appropriation bonds and notes — note payable — AHMSP Stage 7	$ 4,811,237	$ 3,500,734	$ (4,811,236)	$ 3,500,735	$ -
Add unamortized premium		74,656		74,656	
Less deferred loss on refunding		(148,525)		(148,525)	
Total governmental activities	$ 4,811,237	$ 3,426,865	$ (4,811,236)	$ 3,426,866	$ -

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities:					
GDB Operating Fund:					
Remarketed Refunding Bonds	$ 267,000,000	$ -	$ -	$ 267,000,000	$ -
Senior Notes 2006 Series B	365,360,000		(62,665,000)	302,695,000	66,205,000
Senior Notes 2006 Series C	81,960,000			81,960,000	
Senior Notes 2009 Series C	959,773,000		(959,773,000)		
Senior Notes 2009 Series D	301,158,000		(301,158,000)		
Senior Notes 2010 Series A	1,448,741,000		(1,015,039,000)	433,702,000	
Senior Notes 2010 Series B	151,259,000			151,259,000	
Senior Notes 2010 Series C	1,086,478,000		(868,763,000)	217,715,000	
Senior Notes 2010 Series D	96,411,000			96,411,000	
Senior Notes 2011 Series A	70,000,000			70,000,000	
Senior Notes 2011 Series B	650,000,000			650,000,000	
Senior Notes 2011 Series C		450,000,000	(297,000,000)	153,000,000	153,000,000
Senior Notes 2011 Series D		295,000,000	(194,700,000)	100,300,000	100,300,000
Senior Notes 2011 Series E		150,000,000	(150,000,000)		
Senior Notes 2011 Series F		400,000,000	(400,000,000)		
Senior Notes 2011 Series H		1,399,045,000		1,399,045,000	
Senior Notes 2011 Series I		397,935,000		397,935,000	
Senior Notes 2012 Series A		1,000,000,000		1,000,000,000	
Add (deduct) unamortized premium (discount)	4,932,466	(9,880,031)	(1,072,684)	(6,020,249)	143,281
Total Senior Notes	5,483,072,466	4,082,099,969	(4,250,170,684)	5,315,001,751	319,648,281
Notes payable	-	1,000,000,000	(750,000,000)	250,000,000	250,000,000
Total GDB Operating Fund	5,483,072,466	5,082,099,969	(5,000,170,684)	5,565,001,751	569,648,281
Housing Finance Authority					
Mortgage Trust III	861,803,874	-	(695,778,872)	166,025,002	18,175,000
Revenue bonds:					
Single Family Mortgage Revenue Bonds — Portfolio IX	98,150,000		(98,150,000)		
Single Family Mortgage Revenue Bonds — Portfolio X	70,275,000		(70,275,000)		
Single Family Mortgage Revenue Bonds — Portfolio XI	18,280,000		(725,000)	17,555,000	320,000
Homeownership Mortgage Revenue Bonds 2000	44,205,000		(2,835,000)	41,370,000	1,480,000
Homeownership Mortgage Revenue Bonds 2001	45,500,000		(3,225,000)	42,275,000	1,725,000
Homeownership Mortgage Revenue Bonds 2003	21,855,000		(1,675,000)	20,180,000	560,000
Mortgage-Backed Certificates — 2006 Series A	111,188,910		(8,259,469)	102,929,441	11,619,591
Total revenue bonds	409,453,910		(185,144,469)	224,309,441	15,704,591
Subtotal	1,271,257,784		(880,923,341)	390,334,443	33,879,591
Notes payable:					
GDB	2,707,055	422,190		3,129,245	
Special obligation notes	29,000,000	18,000,000	(10,000)	46,990,000	
Plus unamortized premium	462,249		(38,645)	423,604	
Less unaccreted discount and deferred amount on refunds	(461,640,146)	(8,820,000)	400,634,535	(69,825,611)	-
Total Housing Finance Authority	841,786,942	9,602,190	(480,337,451)	371,051,681	33,879,591
Tourism Development Fund:					
Participation agreement payable	26,000,000		(794,444)	25,205,556	866,667
Notes payable to GDB	399,516,476	7,833,492	(700,000)	406,649,968	-
Total Tourism Development Fund	425,516,476	7,833,492	(1,494,444)	431,855,524	866,667
Total	6,750,375,884	5,099,535,651	(5,482,002,579)	6,367,908,956	604,394,539
Less intrafund eliminations	(565,350,629)	(8,255,682)	163,827,098	(409,779,213)	-
Total business-type activities	$ 6,185,025,255	$ 5,091,279,969	$ (5,318,175,481)	$ 5,958,129,743	$ 604,394,539

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, 2012 are as follows:

Years Ending June 30,	GDB Operating Fund Business-Type Activities							
		Principal		Interest		Interest Subsidy (1)		Total
2013	$	569,505,000	$	236,384,736	$	(4,984,359)	$	231,400,377
2014		388,785,000		229,251,518		(4,984,359)		224,267,159
2015		480,770,000		212,339,143		(4,984,359)		207,354,784
2016		876,040,000		184,745,576		(4,984,359)		179,761,217
2017		269,195,000		156,495,318		(4,984,359)		151,510,959
2018-2022		2,024,027,000		457,014,358		(24,921,794)		432,092,564
2023-2027		962,700,000		105,696,041		(15,368,439)		90,327,602
Total	$	5,571,022,000	$	1,581,926,690	$	(65,212,028)	$	1,516,714,662

(1) The GDB Senior Notes Series 2010 B and 2010 D were issued as Build America Bonds. The Bank will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment.

Years Ending June 30,	Housing Finance Authority			
	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	$ -	$ 203,532	$ 33,879,591	$ 10,795,372
2014		195,620	35,987,066	10,143,293
2015		195,620	39,187,294	9,543,182
2016	103,049	192,958	20,736,769	8,963,234
2017	83,595	190,022	36,558,737	8,405,158
2018-2022	468,075	895,711	120,544,469	40,695,550
2023-2027	476,786	785,744	54,627,392	35,548,178
2028-2032	2,369,230	213,360	51,448,906	21,617,901
2033-2037			27,993,452	9,356,397
2038-2042			16,360,767	2,083,729
Total	$ 3,500,735	$ 2,872,567	$ 437,324,443	$ 157,151,994

Years Ending June 30,	Tourism Development Fund (1)	
	Business-Type Activities	
	Principal	Interest
2013	$ 866,667	$ 734,205
2014	866,667	708,481
2015	866,667	682,757
2016	866,667	657,033
2017	866,667	631,309
2018-2019	20,872,221	605,585
Total	$ 25,205,556	$ 4,019,370

(1) Debt service requirements of this variable-rate debt assume that the interest rate effective at June 30, 2012 remains the same throughout the term of the debt.

Governmental Activities — Bonds and notes payable of governmental activities as of June 30, 2012 consist of the following:

Description and Maturity Date	**Interest Rate**	**Amount Outstanding**
Note payable Affordable Housing Mortgage Subsidy Program Stage 7 — due on August 1, 2016 and each August 1, thereafter to August 1, 2031	3.10%–6.50%	$ 3,426,866

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 of the Housing Bank, as authorized by Act No. 164 of December 17, 2001. The Public Finance Corporation ("PFC") acquired and restructured the Note through the issuance of its Commonwealth appropriations bonds (the "PFC Bonds"). The PFC Bonds were issued under certain trust indentures whereby the Public Finance Corporation pledged the Note, along with other notes under Act No. 164, to certain trustees and created a first lien on the revenues of the notes sold (consisting of Commonwealth appropriations earmarked to repay these notes) for the benefit of the bondholders.

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

During the year ended June 30, 2012, the PFC issued PFC 2011 Series A and B and PFC 2012 Series A bonds, and refunded a portion of its outstanding Commonwealth appropriation bonds issued in 2004 under Act No. 164 of December 17, 2001, including $3.1 million of the Note. The Housing Finance Authority recognized a mirror effect of these current refundings by the PFC in its own note payable in proportion to the portion of the Housing Finance Authority's note payable included in the PFC refundings. As a result of the PFC refundings, the Housing Finance Authority recognized a deferred loss on defeasance, deferred debt issue costs and a premium on the Note of $148,525, $36,804, and $74,656, respectively. In addition, as part of these refundings, the Housing Finance Authority recorded a due from the Commonwealth amounting to $303,214 at June 30, 2012 for advances made to the bond trustee to cover future debt service requirements of the Note. The aggregate debt service requirements of the Note in excess of the advances already made to the bond trustee will be funded with appropriations from the Commonwealth.

In December 2011, COFINA issued bonds, a portion of the proceeds of which was used to repay certain appropriation bonds of PFC, including $1,711,322 of the Note. As a result, the Housing Finance Authority recognized a contribution from COFINA of $1,711,322 included within Commonwealth appropriations for repayment of bond and housing assistance programs in the accompanying statement of revenues, expenditures, and changes in fund balances (deficit) - governmental funds.

The outstanding balance of this note at June 30, 2012 was $3,500,735 and matures on August 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the PFC Bonds. The applicable percentage is the percentage representing the proportion of the amount paid by PFC on the PFC Bonds serviced by the Note to the aggregate amount paid by PFC on all the PFC Bonds issued by PFC under Act No. 164.

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

Description and Maturity Date	Interest Rate		Carrying Amount
Remarketed Refunding Bonds —December 1, 2015	4.75%	$	267,000,000
GDB Senior Notes :			
Series 2006 B — Each December 1 until December 1, 2017	5.00		304,850,584
Series 2006 C — January 1, 2015	5.25		82,999,953
Series 2010 A — August 1, 2020	2.00–5.50		433,702,000
Series 2010 B — August 1, 2025	5.75		151,259,000
Series 2010 C — Each August 1 from 2012 to 2019	3.00–5.40		217,715,000
Series 2010 D — August 1, 2025	5.75		96,411,000
Series 2011 A — April 1, 2014	3.90		70,000,000
Series 2011 B — May 1, 2014 and May 1, 2016	3.67–4.704		650,000,000
Series 2011 C — October 15, 2012	1.00		153,000,000
Series 2011 D — November 8, 2012	1.00		100,300,000
Series 2011 H — August 1, 2015, August 1, 2017, August 1, 2019, Each August 1, from 2021 to 2023, and August 1, 2026	3.80–5.20		1,399,045,000
Senior 2011 I — August 1, 2014 and August 1, 2018	3.375–4.35		393,347,739
Senior 2012 A— February 1, 2015, February 1, 2017 and and February 1, 2019	3.448–4.375		995,371,475
Notes payable	1.5908–1.5953		250,000,000
Mortgage Trust III:			
Each July 1 and January 1 until July 1, 2013	Zero Coupon		18,017,947
Each July 1 and January 1 until January 1, 2021	Zero Coupon		109,630,609
Single Family Mortgage Revenue Bonds — Portfolio XI — Each December 1 and June 1 until December 1, 2039	3.460%–5.45%		17,555,000
Homeownership Mortgage Revenue Bonds 2000 Series — Each June 1 and December 1 until December 1, 2032	4.65%–5.20%		41,370,000
Homeownership Mortgage Revenue Bonds 2001 Series:			
Each December 1 until December 1, 2012	4.60%-4.70%		2,495,000
June 1, 2013, and each December 1 and June 1 thereafter until December 1, 2033	5.30%–5.50%		39,780,000
Homeownership Mortgage Revenue Bonds 2003 Series:			
Each December 1 until December 1, 2013	3.80%–4.00%		1,805,000
June 1, 2013, and each December 1 and June 1 thereafter to December 1, 2033	4.375%–4.875%		18,375,000
Mortgage-Backed Certificates, 2006 Series A — Principal and interest payable monthly from September 29, 2006 to August 29, 2030	2.955%–6.560%		92,161,078
Special Obligation Notes, 2010 Series A and B — November 1, 2040	6.96%-6.974%		26,732,802
Total		$	5,932,924,187

GDB Senior Notes, 2011 Series C — On September 13, 2011, the Bank issued $450,000,000 of Senior Notes, 2011 Series C (the "2011 Series C Notes"). The 2011 Series C Notes consist of term notes maturing on October 15, 2012 and carrying a fixed interest rate of 1.00% payable at maturity. The 2011 Series C Notes are subject to redemption prior to maturity at the option of the Bank, subject to at least 15 days prior notice, up to 33% of the original principal amount may be redeemed after April 30, 2012; up to 33% of the original principal amount may be redeemed after May 31, 2012 and up to 34% of the original principal amount after June 30, 2012. Before June 30, 2012, $297 million of the 2011 Series C Notes were redeemed.

GDB Senior Notes, 2011 Series D — On October 5, 2011, the Bank issued $295,000,000 of Senior Notes, 2011 Series D (the "2011 Series D Notes"). The 2011 Series D Notes consist of terms notes maturing on November 8, 2012, and carrying a fixed interest rate of 1.00 % payable at maturity. The 2011 Series D Notes are subject to redemption prior to maturity at the option of the Bank, subject to at least 20 days prior notice, up to 33% of the original principal amount may be redeemed after April 30, 2012; up to 33% of the original principal amount may be redeemed after May 31, 2012 and up to 34% of the original principal amount after June 30, 2012. Before June 30, 2012, $194.7 million of the 2011 Series D Notes were redeemed.

GDB Senior Notes, 2011 Series E — On October 11, 2011, the Bank issued $150,000,000 of Senior Notes, 2011 Series E (the "2011 Series E Notes"). The 2011 Series E Notes consisted of term notes, which matured on April 11, 2012, and carried a fixed interest rate of 1.85% payable monthly on the first day of each month.

GDB Senior Notes, 2011 Series F — On November 8, 2011, the Bank issued $400,000,000 of Senior Notes, 2011 Series F (the "2011 Series F Notes"). The 2011 Series F Notes consisted of term notes maturing on January 8, 2013, and carrying a fixed interest rate of 1.75%, payable at maturity. The 2011 Series F Notes were 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 April 15, 2012 and on any date thereafter, subject to at least 20 days prior notice. The 2011 Series F Notes were redeemed before June 30, 2012.

GDB Senior Notes, 2011 Series H — On December 28, 2011, the Bank issued $1,399,045,000 of Senior Notes, 2011 Series H (the "2011 Series H Notes"). The 2011 Series H Notes consist of term notes maturing on various dates from August 1, 2015 to August 1, 2026, and carrying fixed interest rates ranging from 3.80% to 5.20%, payable monthly in arrears on the first day of each month. The 2011 Series H Notes are subject to redemption on any date prior to maturity beginning on February 1, 2013 at the option of the Bank, either in whole or in part (and if in part, in such order of maturity as directed by the Bank), subject to at least 30 days prior notice without premium.

GDB Senior Notes, 2011 Series I — On January 12, 2012, the Bank issued $397,935,000 of Senior Notes, 2011 Series I (the "2011 Series I Notes"). The 2011 Series I Notes consist of term notes maturing on August 1, 2014 and August 1, 2018, and carrying fixed interest rates ranging from 3.375% to 4.35%, payable monthly in arrears on the first day of each month. The 2011 Series I Notes are subject to redemption prior to maturity at the option of the Bank, either in whole or in part (and if in part, in such order of maturity as directed by the Bank), subject to at least 30 days prior notice, without premium.

GDB Senior Notes, 2012 Series A — On February 7, 2012, the Bank issued $1,000,000,000 of Senior Notes, 2012 Series A (the "2012 Series A Notes"). The 2012 Series A Notes consist of term notes maturing on February 1, 2015, February 1, 2017 and February 1, 2019 and carrying fixed interest rates ranging from 3.448% to 4.375% payable semiannually in arrears on the first day of each February and August. The 2012 Series A Notes are subject to redemption at any time prior to maturity at the option of the Bank, either in whole or in part (and if in part, in such order of maturity as directed by the bank), subject to at least 20 days prior notice.

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

Portfolio IX and X – On April 25, 2012, the Housing Finance Authority repaid bonds with a carrying value at such date of approximately $162 million through the sale of investments that were held as collateral for such bonds. The Housing Finance Authority recognized a loss on early extinguishment of debt of approximately $3.1 million. The Housing Finance Authority was able to release approximately $30 million in excess collateral which were transferred to the AHMSP Act No. 124 fund and to its operating and administrative fund. Investments amounting to approximately $11 million were transferred to AHMSP Act No. 124 fund in order to continue the subsidy payments on the mortgage loans related to the AHMSP.

Special Obligation Notes — During the year ended June 30, 2012, the Housing Finance Authority issued $18 million of Special Obligation Notes. These notes are collateralized by certain second mortgages originated under the Home Purchase Stimulus Program. These notes will be repaid from collections of principal and interest of the underlying collateral, net of servicing and guarantee fees. The second mortgage loans are guaranteed by the Housing Finance Authority's Act No. 87 insurance program.

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

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

The Participation bears a variable interest rate based on the three-month LIBOR plus 2.50%, until maturity on July 1, 2018. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $25.2 million as of June 30, 2012.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2012 follows:

Balance — beginning of period	$ 5,173,292
Additions	1,241,639
Reductions	(3,891,974)
Balance — end of period	$ 2,522,957

The activity for compensated absences included within accounts payable and accrued liabilities during the year ended June 30, 2012 follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$2,380,973	$2,802,842	$2,512,620	$2,671,195	$2,671,195
Sickness	2,277,700	1,797,698	1,627,794	2,447,604	1,749,219
Total	$4,658,673	$4,600,540	$4,140,414	$5,118,799	$4,420,414

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

13. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

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

During the year ended June 30, 2008, the Housing Finance Authority created the Puerto Rico Housing Administration program, known in Spanish as “FHA Boricua,” expanding requirements and parameters under the existing act. The program allows citizens, paying an annual insurance premium, to originate mortgage loans with up to a 98% loan-to-value ratio. The program insures participating lending institutions in events of foreclosure. The program is financed through annual insurance premiums, commitment and transaction fees, and proceeds from any sale of foreclosed real estate. The program also requires participants to comply with various eligibility requirements.

The Commonwealth guarantees up to $75 million of the principal insured by the mortgage loan insurance program. As of June 30, 2012, the mortgage loan insurance program covered loans aggregating to approximately $482 million.

The mortgage insurance loan total premium and investment income for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Mortgage loan insurance premiums	$ 4,300,523	$ 3,774,823
Investment income	430,222	547,720
Total	$ 4,730,745	$ 4,322,543

The regulations adopted by the Housing Finance Authority require the establishment of adequate reserves to guarantee the solvency of the Mortgage Loan Insurance Fund. At June 30, 2012, the Housing Finance Authority had restricted net assets for such purposes of approximately $62.7 million.

The summary of the activity in the allowance for losses on mortgage loan insurance for the years ended June 30, 2012 and 2011, is as follows:

	2012	2011
Balance — beginning of year	$ 3,672,007	$ 346,330
Provision for losses on mortgage loan insurance	627,039	3,325,677
Claims paid	(1,766,843)	(3,064,766)
Foreclosed real estate acquired from insured financial institutions	1,766,843	3,064,766
Balance — end of year	$ 4,299,046	$ 3,672,007

14. TERMINATION BENEFITS

On May 8, 2012, the Bank announced to its employees a voluntary termination plan (the "Plan") based on Act No. 70 enacted on July 2, 2010. The Plan was approved by the Bank's board of directors on October 6, 2010. Act No. 70 provides that eligible employees may retire from employment with the Commonwealth in exchange for an early pension, an economic incentive and other benefits. The Plan only applied to employees who were fifteen years or less from retirement in accordance with their applicable retirement plans as of April 30, 2012. The Plan approved by the Bank's board of directors provides the following:

- The employee will receive an annuity based on the years of service credited by the Retirement System. Employees with fifteen years of service will receive 37.5% of the salary in effect at April 30, 2012. The percent will increase 2.5% each year until nineteen years of service. Employees with years of service between twenty and twenty nine will receive an annuity of 50%. The Bank is responsible for the payment of the annuity in addition to the related employee and employer contributions to the Retirement System.
- The employee will receive an economic incentive of six month's salary. This incentive is exempt from income taxes as established by Act No. 70.
- The employee will receive the benefits of health and dental insurance for a period of one year.

The number of employees who voluntarily separated from employment was eight. Total cost related to these termination benefits was $6.0 million. Employee and employer contributions to the Retirement System and the employee annuity for the applicable period were discounted based on the average interest rate of unpledged investments. As of June 30, 2012, the total liability related to this and a previous plan was $8.3 million.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank is party to transactions involving financial instruments with off-balance-sheet risk to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and financial guarantees. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying statement of net assets (deficiency) 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, 2012, 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	473,901
Total	$ 525,901
Standby letters of credit — Public sector	$ 775,760
Commitments to extend credit — Public sector	$ 2,096,725

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2012:

	Beginning Balance	Provision	Payments / Reductions	Ending Balance	Due Within One Year
Tourism Development Fund	$ 23,655,198	$ 68,276,128	$ -	$ 91,931,326	$ 13,507,190
Development Fund	1,500,000	933,322	1,403,322	1,030,000	1,030,000
Total	$ 25,155,198	$ 69,209,450	$ 1,403,322	$ 92,961,326	$ 14,537,190

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

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

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

On January 19, 2012, the boards of directors of the Bank and the Development Fund approved a loan guarantee program (the "Guarantee Program") to stimulate lending by private banks to businesses in Puerto Rico in order to promote job creation and economic development in Puerto Rico. On April 3, 2012, the Bank, the Development Fund, and certain participating banks entered into guarantee and commitment and funding agreements in which the Development Fund will guarantee eligible loans made by such banks to eligible businesses up to a maximum of 30% of the principal amount of the loans, in accordance with criteria established in the Guarantee Program. The Bank has committed to provide up to $200 million to the Development Fund to enable it to honor payments related to guarantees issued under the Guarantee Program. The Development Fund's guarantee commitments will have a term of one year, up to April 2, 2013. The guarantee issued for each loan will be in effect for a maximum term of seven years. As of June 30, 2012, participating banks had originated 29 loans amounting to approximately $11.4 million, resulting in commitments of approximately $2.9 million for the Development Fund.

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's legislation requires employees to contribute 5.775% of the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. The Bank is required to contribute 10.275% of each participant's gross salary. As required by Act No. 116 of July 6, 2011, the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

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

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

The Bank is required to contribute 10.275% of each participant's gross salary. The Retirement System will use these contributions to increase its asset level and reduce the unfunded status of the defined benefit pension plan. As required by Act. No. 116 of July 6, 2011, the employer's contribution will increase annually by 1.00% until June 30, 2016. Effective July 1, 2016, the employer's contribution will increase by 1.25% annually, until reaching 20.525%.

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, 2012 amounted to approximately $651,000 and $861,000, respectively. The Bank's contributions during the years ended June 30, 2012, 2011, and 2010 amounted to approximately $1,830,000, $1,731,000, and $1,910,000, 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 on its standalone financial statements for the year ended June 30, 2011, 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 July 2016. During fiscal year 2010, the Bank entered into a lease agreement with the Puerto Rico Industrial Development Company (PRIDCO) for office space in PRIDCO's New York Office. This agreement expires in 2022. On June 2012, the Bank entered into a lease agreement with a private entity for additional office space. This agreement expires in December 2012.

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

Rent charged to operations in fiscal year 2012 amounted to approximately $2.6 million. At June 30, 2012, the minimum annual future rentals under noncancelable leases are approximately as follows:

Year Ending June 30,	Amount
2013	$ 2,995,000
2014	2,949,000
2015	2,957,000
2016	2,964,000
2017	2,665,000
Thereafter	52,157,000
Total	$ 66,687,000

Cooperative Development Investment Fund — On August 18, 2002, the Legislature approved Act No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the Bank up to $25 million to be matched by cooperative entities. As of June 30, 2012, the Bank has contributed $17.9 million to the Cooperative Development Investment Fund, $969,000 of which were contributed during the year ended June 30, 2012.

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 $15 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2012, the outstanding balance of loans guaranteed by the Development Fund amounted to approximately $9.5 million and the allowance for losses on guarantees amounted to approximately $1 million.

Custodial Activities of Enterprise Funds — At June 30, 2012, the Housing Finance Authority was custodian of approximately $227,900 in restricted funds of the former "*Corporación de Renovación Urbana y Vivienda*" ("CRUV"). As of June 30, 2012, 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 Finance Authority 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, 2012, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately $497,400.

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, 2012, the principal balance of the mortgage loans serviced for others is approximately as follows:

Puerto Rico Community Development Fund I	$	42,750,000
R-G Mortgage, Inc. or its successor		1,379,516
CRUV or its successor without guaranteed mortgage loan payments		32,498
Total	$	44,162,014

HOME Program — The U.S. Office of Inspector General ("OIG") has performed various examinations of the HOME Program covering fiscal years ended prior to July 1, 2010. These examinations covered the periods in which the HOME Program was under the administration of the Department of Housing. These examinations identified instances of noncompliance with terms and conditions of the grant agreements, applicable federal law, and the HOME Program's regulations, including but not limited to the expenditure of resources for eligible purposes. OIG identified in its examinations disallowed costs amounting to approximately of $18.3 million. The Housing Finance Authority's management is of the opinion that these disallowed costs are a liability of the DOH and, therefore, the Housing Finance Authority has not recorded a contingency in its basic financial statements.

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 $8.1 billion of Commonwealth appropriation bonds (the "Bonds") maturing at various dates through 2032. The proceeds of the Bonds, except for approximately $4.6 billion, were used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth and certain of its instrumentalities and public corporations (the "Promissory Notes"). The $4.6 billion referred to above were used to refund a portion of certain bonds issued by the Public Finance Corporation between fiscal years 1995 and 2005. The outstanding balance of the Bonds at June 30, 2012 amounted to approximately $1.1 billion.

The Bonds are limited obligations of the Public Finance Corporation and, except to the extent payable from bond proceeds and investment earnings thereon, will be payable solely from a pledge and assignment of amounts due under the Promissory Notes. Principal and interest on the Promissory Notes are payable solely from legislative appropriations to be made pursuant to acts approved by the Legislature of the Commonwealth. These acts provide that the Commonwealth shall honor the payment of principal and interest on the Promissory Notes, and that the Director of the OMB shall include in the budget of the Commonwealth submitted to the Legislature the amounts necessary to pay the principal and interest on the Promissory Notes. The Promissory Notes represent debt of the issuing instrumentalities (all part of the Commonwealth or its component units), and, for purposes of the Public Finance Corporation, the Bonds are considered 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, 2012, 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	$ 1,572,582
Restricted liabilities (no-commitment debt)	1,572,582
Restricted fund balance	$ -
Excess of fund expenses over revenues	$ 231,828

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 $496.5 million at June 30, 2012.

On August 1, 2008, the Housing Finance Authority issued the Capital Fund Modernization Program Subordinate Bonds amounting to $384,475,000 and the Housing Revenue Bonds amounting to $100,000,000. The proceeds from the issuance were mainly used to finance a loan to a limited liability company (the "LLC") and pay the costs of issuance. The $384,475,000 bonds are limited obligations of the Housing Finance Authority, payable primarily by a pledge and assignment of federal housing assistance payments made available by the U.S. Department of Housing and Urban Development, with an outstanding balance of $331,900,000 at June 30, 2012. The $100,000,000 bonds were also limited obligations of the Housing Finance Authority, payable from amounts deposited in escrow accounts with a trustee and the proceeds of a loan to be made by the Housing Finance Authority to the LLC using moneys received as a grant from DOH. Payment of principal of the Housing Revenue Bonds was also secured by an irrevocable standby letter of credit issued by the Bank. The Housing Revenue Bonds were paid-off on September 30, 2011.

19. 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, 2012 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, securities purchased under agreement to resell, deposits placed with banks, due from federal government, certificates of deposit, securities sold under agreements to repurchase, 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, long-term certificates of deposit, and bonds, notes and mortgage-backed certificates 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, participation agreement payable, 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 loans, commitments to extend credit, standby letters of credit, and financial guarantees relating to the Commonwealth and its instrumentalities is omitted, as these agreements are with component units of the Commonwealth. See notes 5 and 15.

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at June 30, 2012 (in millions):

	Reported Amount	Fair Value
Financial assets:		
Cash and due from banks	$ 88	$ 88
Federal funds sold and securities purchased under agreements to resell	478	478
Deposits placed with banks	987	987
Due from federal government	13	13
Investments and investment contracts	5,383	5,409
Accrued interest receivable and other receivables	197	197
Financial liabilities:		
Demand deposits	3,947	3,947
Certificates of deposit	2,120	2,120
Securities sold under agreements to repurchase	884	884
Accounts payable and accrued liabilities	199	199
Accrued interest payable	49	49
Bonds, notes, mortgage-backed certificates and participation agreement payable	5,962	6,060

20. INTERFUND BALANCES AND TRANSFERS

The following table is a summary of the interfund balances as of June 30, 2012 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	$ 270,990
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	199,818
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Investment agreements and accrued interest	545,961
Other nonmajor funds (AHMSP Act No. 124)	GDB Operating Fund	Demand deposits and accrued interest	31,639,345
AHMSP-Stage 7	GDB Operating Fund	Demand deposits and and accrued interest	49,440
Other nonmajor funds (AHMSP-Stage 8)	GDB Operating Fund	Investment agreements and accrued interest	15,216,388
ARRA Funds	GDB Operating Fund	Demand deposits	259
Other nonmajor funds (Closing Costs Assistance Program)	GDB Operating Fund	Demand deposits and accrued interest	373,473
My New Home Program	GDB Operating Fund	Demand deposits and accrued interest	12,190,147
Other nonmajor funds (New Secure Housing Program)	GDB Operating Fund	Certificates of deposit and accrued interest	9,806,419
Other nonmajor funds (New Secure Housing Program)	GDB Operating Fund	Demand deposits and accrued interest	10,513,643
Subtotal and balance carried forward			80,805,883

(Continued)

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 80,805,883
Governmental fund:	Enterprise fund:		
Other nonmajor funds (New Secure Housing Program)	Housing Finance Authority	Reimbursement of expenditures	78,085
Total			$ 80,883,968
Enterprise fund:	Governmental fund:		
GDB Operating Fund	Other nonmajor funds (New Secure Housing Program)	Loans payable and accrued interest	(53,816,840)
GDB Operating Fund	AHMSP-Stage 7	Loans payable and accrued interest	(39,277,523)
GDB Operating Fund	Other nonmajor funds (AHMSP-Act. No. 124)	Loans payable and accrued interest	(13,512,041)
GDB Operating Fund	My New Home Program	Loans payable and accrued interest	(45,635,000)
Housing Finance Authority	AHMSP-Stage 7	Reimbursement of expenditures	(1,667,841)
Housing Finance Authority	Other nonmajor funds (New Secure Housing Program)	Reimbursement of expenditures	(54,116)
Housing Finance Authority	HUD Programs	Reimbursement of expenditures	(1,344,111)
Housing Finance Authority	My New Home Program	Reimbursement of expenditures	(36,613)
Housing Finance Authority	Other nonmajor funds (HOME Programs)	Reimbursement of expenditures	(1,536,344)
Housing Finance Authority	Other nonmajor funds (AHMSP Act. No. 124)	Reimbursement of expenditures	(40,000)
Housing Finance Authority	Other nonmajor funds (AHMSP Act. No. 124)	Reimbursement of expenditures	(19,436,821)
Housing Finance Authority	Other nonmajor funds (Protecting Your Home Program)	Reimbursement of expenditures	(6,588,750)
Total			(182,946,000)
Total internal balances — net			$ (102,062,032)

(Continued)

The summary of interfund balances as of June 30, 2012, among governmental funds, is as follows:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	Governmental fund:		
Other nonmajor funds (Protecting your Home Program)	Other nonmajor funds (AHMSP Act No. 124)	Reimbursement of expenditures	$ 303,809

The summary of interfund balances as of June 30, 2012, among enterprise funds, is as follows:

Receivable by	Payable by	Purpose	Amount
Enterprise funds:	Enterprise funds:		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 17,198,256
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	10,147,426
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	10,769,400
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,192,989
Other nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,383,773
Other nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	71,281
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	97,937,417
Tourism Development Fund	GDB Operating Fund	Certificates of deposit and accrued interest	13,376,559
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	415,787,854
GDB Operating Fund	Housing Finance Authority	Loan receivable and accrued interest	3,207,627
Total balance among enterprise funds eliminated			$ 572,072,582

(Concluded)

The following table is a summary of interfund transfers for the year ended June 30, 2012:

Transfer Out	Transfer In	Transfer for	Amount
Governmental funds:	**Governmental funds:**		
Other nonmajor funds (AHMSP Stage 9)	Other nonmajor funds (AHMSP Act No. 124)	Contribution	$ 17,998,786
Other nonmajor funds (AHSMP Act. No. 124)	Other nonmajor funds (AHMSP Stage 10)	Contribution	5,613,888
Other nonmajor funds (Closing Cost Assistance Program)	My New Home Program	Subsidy payments	5,433,835
Other nonmajor funds (AHMSP Act No. 124)	Other nonmajor funds (AHMSP Stage 10)	Cost of defeasance	175,117
Other nonmajor funds (AHMSP Act No. 124)	Other nonmajor funds (AHMSP Stage 9)	Cost of defeasance	415,103
Governmental funds:	**Enterprise funds:**		
Other nonmajor funds (AHSMP Stage 9)	Housing Finance Authority	Debt service payment	368,637
Other nonmajor funds (AHMSP- Act. No. 124)	Housing Finance Authority	Cost of defeasance	614,103
Other nonmajor funds (AHMSP- Stage 10)	Housing Finance Authority	Debt service payments	168,129
Other nonmajor funds (AHMSP- Act. No. 124)	Housing Finance Authority	Contributions	19,436,821
Other nonmajor funds (AHMSP Act No. 124)	Housing Finance Authority	Cost of defeasance	468,088
Enterprise funds:	**Governmental funds:**		
Housing Finance Authority	Other nonmajor (New Secure Housing Program)	Subsidy payments	1,511,190
Housing Finance Authority	Other nonmajor (AHMSP Act No. 124)	Subsidy payments	27,906,381
Housing Finance Authority	Other nonmajor (AHMSP Stage 9)	Contribution	7,979,387
Housing Finance Authority	Other nonmajor (AHMSP Stage 10)	Contribution	3,713,142
Housing Finance Authority	Other nonmajor (AHMSP Mortgage-Backed Certificates)	Subsidy payments	2,859,606
Housing Finance Authority	My New Home Program	Subsidy payments	45,000,000
Housing Finance Authority	Other nonmajor (Protecting Your Home Program)	Subsidy payments	14,000,000
Enterprise funds:	**Enterprise funds:**		
GDB Operating Fund	Other nonmajor funds (JMB Institute)	Contribution	100,000
Housing Finance Authority	GDB Operating Fund	Excess funds	1,512,242

21. FUND BALANCE DEFICIT

The following governmental funds reflect a deficit at June 30, 2012: My New Home Program, AHMSP Stage 7, HOME Program and New Secure Housing Program for the amount of $48.3 million, $20.5 million, $2.6 million, and $56.9 million, respectively. The deficit of the My New Home Program and AHMSP Stage 7 is due to the amounts borrowed by the Housing Finance Authority from the Bank that were used to provide housing subsidies. The deficit of the New Secure Housing Program is due to FEMA discontinued reimbursement of the Housing Finance Authority's allowable costs. The deficit of the Home Program is due to the deferral of revenue that was not considered available for current expenditures. Except for the Home Program, the Housing Finance Authority expects to cover these deficits through contributions from the Commonwealth.

22. SUBSEQUENT EVENTS

Subsequent events were evaluated through February 11, 2013, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the 2012 financial statements.

Housing Finance Authority

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

On October 25, 2012, the Housing Finance Authority issued approximately $30.5 million of its special obligation notes, 2012 Series A (the “2012 Notes”) at an aggregate discounted price of $15,542,250. The 2012 Notes will be collateralized by certain second mortgages originated under the Home Purchase Stimulus Program and will be repaid from collections of principal and interest of the underlying collateral. The mortgage loans will be guaranteed by the Housing Finance Authority’s Act No. 87 mortgage loan insurance.

Tourism Development Fund

In August 2003, the Bank approved a line of credit to the Tourism Development Fund in order to provide funding to the Tourism Development Fund to lend the money to a private entity for the development of a hotel. In July 2012, the boards of directors of the Bank and the Tourism Development Fund approved a resolution whereby, among other, the Bank released the Tourism Development Fund of paying $85 million of its line of credit with the Bank. As a result of this transaction, the Tourism Development Fund recorded a transfer-in and the Bank recorded a transfer-out of $85 million.

* * * * * *

OTHER SUPPLEMENTARY INFORMATION

OTHER NONMAJOR GOVERNMENTAL FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information- Other Nonmajor Governmental Funds
As of June 30, 2012

	Affordable Housing Mortgage Subsidy Program- Stage 2	Affordable Housing Mortgage Subsidy Program- Stage 3	Affordable Housing Mortgage Subsidy Program- Stage 6	Affordable Housing Mortgage Subsidy Program- Stage 8	Affordable Housing Mortgage Subsidy Stage 11	Affordable Housing Mortgage-Backed Certificates 2006 Series A	Affordable Housing Program Act No. 124	Closing Costs Assistance Program	HOME Program	Protecting Your Home Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
ASSETS												
Due from other funds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 303,809	$ 78,085	$ 381,894
Restricted:												
Cash and due from banks	417	417	27			2,834,229	10,862,689		2,082,150			15,779,929
Deposits placed with banks						2,393,795	2,213,832					4,607,627
Due from federal government									11,906,503			11,906,503
Investments and investment contracts	8,484,280	6,324,756	11,434,736	734,476	4,626,003		11,516,840					43,121,091
Due from other funds				15,216,388			32,185,306	373,473		20,320,062	270,990	68,366,219
Interest and other receivables	9,736	7,799	29,482	3,492	38	478	53,970					104,995
TOTAL	$ 8,494,433	$ 6,332,972	$ 11,464,245	$ 15,954,356	$ 4,626,041	$ 5,228,502	$ 56,832,637	$ 373,473	$ 13,988,653	$ 20,623,871	$ 349,075	$ 144,268,258
LIABILITIES:												
Due to other funds	$ -	$ -	$ -	$ -	$ -	$ -	$ 33,292,680		$ 1,536,344	$ 6,588,751	$ 53,870,946	$ 95,288,721
Restricted-accounts payable and accrued liabilities	82,680	24,893	283,525	412,810	257,710	4,460,152	347,334	26,100	12,307,625	904,954	3,400,421	22,508,204
Deferred revenue									2,772,782			2,772,782
Total liabilities	82,680	24,893	283,525	412,810	257,710	4,460,152	33,640,014	26,100	16,616,751	7,493,705	57,271,367	120,569,707
FUND BALANCE (DEFICIT):												
Restricted for affordable housing programs	8,411,753	6,308,079	11,180,720	15,541,546	4,368,331	768,350	23,192,623	347,373		13,130,166		83,248,941
Unassigned									(2,628,098)		(56,922,292)	(59,550,390)
Total fund balances (deficit)	8,411,753	6,308,079	11,180,720	15,541,546	4,368,331	768,350	23,192,623	347,373	(2,628,098)	13,130,166	(56,922,292)	23,698,551
TOTAL	$ 8,494,433	$ 6,332,972	$ 11,464,245	$ 15,954,356	$ 4,626,041	$ 5,228,502	$ 56,832,637	$ 373,473	$ 13,988,653	$ 20,623,871	$ 349,075	$ 144,268,258

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances (Deficit) Information- Other Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Affordable Housing Mortgage Subsidy Program-Stage 2	Affordable Housing Mortgage Subsidy Program-Stage 3	Affordable Housing Mortgage Subsidy Program-Stage 6	Affordable Housing Mortgage Subsidy Program-Stage 8	Affordable Housing Mortgage Subsidy Program-Stage 9	Affordable Housing Mortgage Subsidy Program-Stage 10	Affordable Housing Mortgage Subsidy Program-Stage 11
REVENUES:							
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ -	$ -	$ -	$ -	$ -	$ 1,087,207	$ -
Intergovernmental – federal government							
Interest on investments	479,403	351,132	611,135	868,812	465,213	197,232	563
Net increase (decrease) in fair value of investments	(2,224)	751	(12,469)	(28,763)	(29,740)	(13,841)	
Other							
Total revenues	477,179	351,883	598,666	840,049	435,473	1,270,598	563
EXPENDITURES:							
Current:							
General government	5,004	5,004	11,000	8,500	415,102	282,060	
Housing assistance programs	314,932	155,073	423,197	799,150	747,004	594,256	151,377
Debt service — Interest						900,269	
Total expenditures	319,936	160,077	434,197	807,650	1,162,106	1,776,585	151,377
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	157,243	191,806	164,469	32,399	(726,633)	(505,987)	(150,814)
OTHER FINANCING SOURCES (USES):							
Transfers-in					8,394,490	9,449,677	
Transfers-out					(18,367,424)	(168,128)	
Total other financing sources and (uses)	-	-	-	-	(9,972,934)	9,281,549	-
NET CHANGE IN FUND BALANCES (DEFICIT)	157,243	191,806	164,469	32,399	(10,699,567)	8,775,562	(150,814)
FUND BALANCES (DEFICIT) -BEGINNING OF YEAR	8,254,510	6,116,273	11,016,251	15,509,147	10,699,567	(8,775,562)	4,519,145
FUND BALANCE (DEFICIT) -END OF YEAR	$ 8,411,753	$ 6,308,079	$ 11,180,720	$ 15,541,546	$ -	$ -	$ 4,368,331

	Affordable Housing Mortgage-Backed Certificates 2006 Series A	Affordable Housing Program Act No. 124	Closing Costs Assistance Program	HOME Program	Protecting Your Home Program	New Secure Housing Program	Total Other Nonmajor Governmental Funds
REVENUES:							
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,087,207
Intergovernmental – federal government				18,483,629			18,483,629
Interest on investments	6,802	88,261	13,306	95	61,425	275	3,143,654
Net increase (decrease) in fair value of investments							(86,286)
Other		835,905	83,985	171,175	29,524	700	1,121,289
Total revenues	6,802	924,166	97,291	18,654,899	90,949	975	23,749,493
EXPENDITURES:							
Current:							
General government		12,719		1,210,412	1,185,403	32,067	3,167,271
Housing assistance programs	1,663,574	26,237	80,666	15,830,738	19,775,653	1,764,894	42,326,751
Debt service — Interest		52,343				885,252	1,837,864
Total expenditures	1,663,574	91,299	80,666	17,041,150	20,961,056	2,682,213	47,331,886
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,656,772)	832,867	16,625	1,613,749	(20,870,107)	(2,681,238)	(23,582,393)
OTHER FINANCING SOURCES (USES):							
Transfers-in	2,859,606	45,957,637			14,000,000	1,511,190	82,172,600
Transfers-out		(26,723,120)	(5,433,835)				(50,692,507)
Total other financing sources and (uses)	2,859,606	19,234,517	(5,433,835)	-	14,000,000	1,511,190	31,480,093
NET CHANGE IN FUND BALANCES (DEFICIT)	1,202,834	20,067,384	(5,417,210)	1,613,749	(6,870,107)	(1,170,048)	7,897,700
FUND BALANCES (DEFICIT) -BEGINNING OF YEAR	(434,484)	3,125,239	5,764,583	(4,241,847)	20,000,273	(55,752,244)	15,800,851
FUND BALANCE (DEFICIT) -END OF YEAR	$ 768,350	$ 23,192,623	$ 347,373	$ (2,628,098)	$ 13,130,166	$ (56,922,292)	$ 23,698,551

OTHER NONMAJOR ENTERPRISE FUNDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Balance Sheet Information - Other Nonmajor Enterprise Funds
June 30, 2012

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Assets:			
Current assets:			
Cash and due from banks	$ 2,454,850	$ 71,275	$ 2,383,575
Accrued interest receivable	324	6	318
Other current receivables	60	60	
Total current assets	$ 2,455,234	$ 71,341	$ 2,383,893
Liabilities:			
Current liabilities-Accounts payable and accrued liabilities	$ 33,469	$ 33,350	$ 119
Net assets:			
Unrestricted	2,421,765	37,991	2,383,774
Total net assets	2,421,765	37,991	2,383,774
Total liabilities and net assets	$ 2,455,234	$ 71,341	$ 2,383,893

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
Combining Statement of Revenues, Expenses, and
Changes in Net Assets Information - Other Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Operating revenues:			
Investment income:			
Interest income on deposits placed with banks	$ 2,521	$ 98	$ 2,423
Total investment income	2,521	98	2,423
Total operating revenues	2,521	98	2,423
Operating expenses:			
Noninterest expenses:			
Salaries and fringe benefits	59,777	59,777	
Legal and professional fees	46,124	46,124	
Other	2,941	2,941	-
Total operating expenses	108,842	108,842	-
Operating income (loss)	(106,321)	(108,744)	2,423
Transfer-in	100,000	100,000	
Net assets, beginning of year	2,428,086	46,735	2,381,351
Net assets, end of year	$ 2,421,765	$ 37,991	$ 2,383,774

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

Combining Statement of Cash Flow Information - Other Nonmajor Enterprise Funds

For the year ended June 30, 2012

	Total Other Nonmajor Enterprise Funds	José M. Berrocal Institute	Education Assistance Corporation
Cash flows from operating activities:			
Cash received from other operating noninterest revenues	212	212	-
Cash paid for other operating noninterest expenses	$ (123,612)	$ (123,612)	$ -
Net cash used in operating activities	(123,400)	(123,400)	-
Cash flows from noncapital financing activities:			
Transfers-in	100,000	100,000	-
Net cash provided by noncapital financing activities	100,000	100,000	-
Cash flows from investing activities:			
Interest received on investments	2,522	100	2,422
Net cash provided by investing activities	2,522	100	2,422
Net change in cash and due from banks	(20,878)	(23,300)	2,422
Cash and due from banks at beginning of year	2,475,728	94,575	2,381,153
Cash and due from banks at end of year	$ 2,454,850	$ 71,275	$ 2,383,575
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	$ (106,321)	$ (108,744)	$ 2,423
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Investment income	(2,521)	(98)	(2,423)
Increase in other assets	(60)	(60)	
Decrease in other liabilities	(14,498)	(14,498)	-
Net cash used in operating activities	$ (123,400)	$ (123,400)	$ -

2012

GDB

Statistical Section

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

STATISTICAL SECTION

This section is intended to complement the information presented in the financial statements, the notes disclosures and the required supplementary information to help readers understand the financial evolution of the Bank. Whenever possible, we have provided comparative information for the last ten fiscal years; that is, from fiscal years 2002 to 2011. The selection was based on the fact that in 2002 one of the Bank's component units merged with another governmental entity with governmental activities. Prior to the merger, all of the Bank's component unit's activities were of the business type. Also, it was in 2002 when the Bank implemented GASB Statement No. 34.

The information contains data illustrative of five categories:

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

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

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

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

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

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

FINANCIAL TRENDS

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Net Assets - Government-Wide

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities:										
Invested in capital assets	$ 19	$ 42	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	59,415	50,720	52,933	33,614	115,429	104,100	78,036	95,018	134,857	174,745
Unrestricted	(105,153)	(86,368)	(54,512)	(4,738)	(32,331)	(10,405)	(52,328)	(88,696)	(117,548)	(158,599)
Total governmental activities net assets	(45,719)	(35,606)	(1,579)	28,876	83,098	93,695	25,708	6,322	17,309	16,146
Business-type activities:										
Invested in capital assets	96,199	71,008	15,750	17,452	27,397	24,525	27,860	25,277	15,204	14,817
Restricted	157,279	311,329	296,977	231,811	229,459	195,826	231,866	271,389	262,778	258,529
Unrestricted	2,313,386	2,237,411	2,232,813	2,172,543	2,018,770	1,957,194	1,811,003	1,659,175	2,020,846	1,866,287
Total business-type activities net assets	2,566,864	2,619,748	2,545,540	2,421,806	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828	2,139,633
Primary government										
Invested in capital assets	96,218	71,050	15,750	17,452	27,397	24,525	27,860	25,277	15,204	14,817
Restricted	216,694	362,049	349,910	265,425	344,888	299,926	309,902	366,407	397,635	433,274
Unrestricted	2,208,233	2,151,043	2,178,301	2,167,805	1,986,439	1,946,789	1,758,675	1,570,479	1,903,298	1,707,688
Total primary government net assets	$ 2,521,145	$ 2,584,142	$ 2,543,961	$ 2,450,682	$2,358,724	$ 2,271,240	$2,096,437	$1,962,163	$2,316,137	$2,155,779

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Changes in Net Assets Government-Wide

Last Ten Fiscal Years

(Accrual Basis of Accounting)

(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Expenses										
Governmental activities:										
General government	$ 8,260	$ 6,155	$ 4,777	$ 4,555	$ 5,165	$ 4,514	$ 1,201	$ 1,964	$ 1,511	$ 1,041
Housing assistance programs	265,451	311,951	250,787	177,085	144,438	165,056	192,784	273,687	133,074	80,572
Total governmental activities expenses	273,711	318,106	255,564	181,640	149,603	169,570	193,985	275,651	134,585	81,613
Business-type activities:										
GDB Operating Fund	402,188	409,653	342,854	318,792	381,694	500,702	361,649	687,780	139,623	181,301
Housing Finance Authority	98,865	93,504	96,153	88,024	92,053	85,317	113,138	105,521	219,276	216,270
Tourism Development Fund	238,885	50,125	28,410	63,284	16,159	11,955	13,971	16,202	13,374	15,218
Public Finance Corporation	4	4	4,681	3,745	7,165	20,404	56	53	7,779	422
Capital Fund	38	37	68	66	68	73	89	87	121	46
Development Fund	2,355	10,947	3,555	2,929	(5,099)	10,095	39	60	95	41
Other nonmajor	109	110	140	137	181	168	98	107	101	50
Total business-type activities expenses	742,444	564,380	475,861	476,977	492,221	628,714	489,040	809,810	380,369	413,348
Total primary government expenses	1,016,155	882,486	731,425	658,617	641,824	798,284	683,025	1,085,461	514,954	494,961
Programs Revenues										
Governmental activities:										
Charges for services-financing and investment	4,683	4,691	4,743	6,616	10,228	10,829	13,355	15,508	16,791	34,587
Operating grants and contributions	177,001	279,609	225,268	127,411	133,012	199,284	187,815	265,171	112,721	31,923
Capital grants and contributions	-	-	-	-	-	-	-	-	21,493	37,027
Total governmental activities program revenues	181,684	284,300	230,011	134,027	143,240	210,113	201,170	280,679	151,005	103,537
Business-type activities:										
Charges for services-fees, commissions, and others	56,961	35,013	36,605	29,750	50,188	30,674	41,781	44,204	55,143	76,014
Charges for services-financing and investment	714,513	602,801	507,978	432,577	576,122	732,301	537,869	406,604	354,395	356,705
Operating grants and contributions	-	-	49,000	-	-	-	-	-	113,743	112,199
Total business-type activities program revenues	771,474	637,814	593,583	462,327	626,310	762,975	579,650	450,808	523,281	544,918
Total primary government programs revenues	953,158	922,114	823,594	596,354	769,550	973,088	780,820	731,487	674,286	648,455
Net (Expense) Revenue										
Governmental activities	(92,027)	(33,807)	(25,553)	(47,613)	(6,363)	40,543	7,185	5,028	16,420	21,924
Business-type activities	29,030	73,433	117,722	(14,650)	134,089	134,261	90,610	(359,002)	142,912	131,570
Total primary government net revenue (expense)	(62,997)	39,626	92,169	(62,263)	127,726	174,804	97,795	(353,974)	159,332	153,494
General Revenue and Other Changes in Net Assets										
Governmental activities:										
Unrestricted income	-	-	-	-	-	-	-	-	1,026	97
Total governmental activities	-	-	-	-	-	-	-	-	1,026	97
Business-type activities:										
Special item	-	555	1,110	154,222	(40,243)	-	36,479	-	-	-
Total business-type activities	-	555	1,110	154,222	(40,243)	-	36,479	-	-	-
Total primary government	-	555	1,110	154,222	(40,243)	-	36,479	-	1,026	97
Change in net assets										
Governmental activities	(10,113)	(34,027)	(30,455)	(54,222)	(10,598)	40,543	7,185	5,028	17,446	22,021
Business-type activities	(52,884)	74,208	123,734	146,181	98,081	134,261	127,089	(359,002)	142,912	131,570
Total primary government	$ (62,997)	$ 40,181	$ 93,279	$ 91,959	$ 87,483	$ 174,804	$ 134,274	$ (353,974)	$ 160,358	$ 153,591

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)
FINANCIAL TRENDS
Fund Balances-Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)
(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Governmental Funds										
Reserved for:										
Long-term loans receivable and other assets	$ -	$ -	$ -	$ 2,582	$ 3,146	$ 3,597	$ 5,624	$ 8,855	$ 5,652	$ 7,009
Debt service	-	-	-	29,080	27,727	25,504	55,682	53,373	51,754	50,508
Unreserved-special revenue funds	-	-	3,297	1,952	36,087	56,094	2,972	20,597	77,451	108,845
Restricted for affordable housing programs	83,249	85,005	-	-	-	-	-	-	-	-
Unassigned	(128,291)	(120,344)	-	-	-	-	-	-	-	-
Total fund balances governmental funds	$ (45,042)	$ (35,339)	$ 3,297	$ 33,614	$ 66,960	$ 85,195	$ 64,278	$ 82,825	$ 134,857	$ 166,362

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

FINANCIAL TRENDS

Changes in Fund Balances - Governmental Funds

Last Ten Fiscal Years

(Modified Accrual Basis of Accounting)

(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
REVENUES										
Commonwealth appropriations for repayment of bonds and housing assistance programs	$ 3,089	$ 38,266	$ 11,162	$ 2,253	$ 11,689	$ 65,850	$ 43,818	$ 119,728	$ 114,550	$ 67,416
Intergovernmental -- federal government	173,463	234,647	211,156	118,532	115,587	124,358	138,272	139,330	21,493	9,563
Interest on investments and deposits placed with banks	4,769	4,715	4,538	6,279	9,836	10,517	13,114	14,498	18,803	29,303
Interest income on loans	-	-	162	225	323	420	538	731	926	1,342
Net increase (decrease) in fair value of investments	(86)	(24)	43	112	69	(107)	(296)	279	(2,938)	3,942
Net gain on sale of real estate available for sale	-	-	94	250	507	-	-	-	-	-
Other	2,252	2,119	1,627	2,525	3,115	3,928	4,160	474	1,026	97
Total revenues	183,487	279,723	228,782	130,176	141,126	204,966	199,606	275,040	153,860	111,663
EXPENDITURES										
Current:										
General government and other	8,260	6,156	4,776	4,554	5,165	4,515	1,201	1,964	1,511	1,042
Housing assistance programs	262,213	309,415	247,013	148,737	138,591	155,928	179,427	264,838	115,936	67,463
Provision (credit) for loan losses	-	-	-	(87)	(247)	724	1,159	(4,343)	-	(4,925)
Capital outlays	-	42	-	-	-	-	-	-	-	-
Debt service:										
Principal	1,711	-	-	151	5,237	41,695	36,516	36,105	34,497	32,770
Interest	3,396	2,526	2,407	3,559	6,380	8,631	12,051	12,493	17,138	18,033
Total expenditures	275,580	318,139	254,196	156,914	155,126	211,493	230,354	311,057	169,082	114,383
Deficiency of revenues under expenditures	(92,093)	(38,416)	(25,414)	(26,738)	(14,000)	(6,527)	(30,748)	(36,017)	(15,222)	(2,720)
OTHER FINANCING SOURCES (USES):										
Issuance of long-term debt	3,575	-	-	-	-	-	-	-	-	-
Payment to refunded bonds escrow agent	(3,100)	-	-	-	-	-	-	-	-	-
Transfers-in	132,607	40,343	65,564	13,068	77,891	74,975	67,306	86,799	44,871	29,379
Transfers-out	(50,692)	(40,563)	(70,466)	(19,677)	(82,126)	(47,531)	(55,106)	(102,813)	(61,154)	(74,389)
Total other financing sources (uses)	82,390	(220)	(4,902)	(6,609)	(4,235)	27,444	12,200	(16,014)	(16,283)	(45,010)
Net change in fund balance	(9,703)	(38,636)	(30,316)	(33,347)	(18,235)	20,917	(18,548)	(52,031)	(31,505)	(47,730)
Fund balance (deficit) - beginning of year	(35,339)	3,297	33,613	66,960	85,195	64,278	82,826	134,857	166,362	214,092
Fund balance (deficit) - end of year	$ (45,042)	$ (35,339)	$ 3,297	$ 33,613	$ 66,960	$ 85,195	$ 64,278	$ 82,826	$ 134,857	$ 166,362
Debt service as a percentage of noncapital expenditures	1.85%	0.79%	0.95%	2.36%	7.49%	23.80%	21.08%	15.62%	30.54%	44.41%

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

REVENUE CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Revenue Bases and Rates - Government-Wide

Last Ten Fiscal Years

(In thousands)

Average Balances	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
ASSETS:										
Federal funds sold and securities purchased under agreements to resell	$ 283,375	$ 209,925	$ 847,500	$ 219,291	$ 1,074,850	$ 1,356,192	$ 994,071	$ 693,306	$ 874,159	$ 1,051,839
Deposits placed with banks	863,524	392,684	578,816	442,726	1,852,131	752,292	198,218	108,297	190,354	169,213
Investments and investment contracts	5,365,804	5,783,596	5,296,095	4,764,271	2,671,876	2,397,864	2,343,648	2,348,308	3,254,689	3,997,570
Loans receivable, net	8,385,031	7,681,172	6,825,894	6,193,417	4,836,818	6,137,200	6,398,755	5,278,857	3,554,521	2,371,126
Total interest earning assets	14,897,734	14,067,376	13,548,305	11,619,705	10,435,675	10,643,548	9,934,692	8,428,768	7,873,723	7,589,748
LIABILITIES:										
Commercial paper	-	-	-	421	241,846	503,401	1,126,304	973,560	828,005	438,292
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	5,810,311	5,851,443	6,852,003	5,991,527	4,715,376	4,783,160	4,481,503	3,523,780	2,819,592	2,874,095
Certificates of indebtedness	2,150	8,050	11,800	11,800	11,800	26,916	186,886	256,009	247,000	265,907
Securities sold under agreements to repurchase	927,652	1,014,827	958,944	913,030	497,009	462,425	552,864	206,387	172,754	160,519
Bonds and notes payable	6,050,089	5,124,426	3,586,843	2,698,005	2,942,667	3,083,242	1,864,787	1,559,419	1,705,337	1,639,523
Total interest bearing liabilities	12,790,201	11,998,746	11,409,590	9,614,783	8,408,698	8,859,144	8,212,344	6,519,155	5,772,688	5,378,336
Excess of average interest earning assets over average interest bearing liabilities	$ 2,107,533	$ 2,068,630	$ 2,138,715	$ 2,004,922	$ 2,026,977	$ 1,784,404	$ 1,722,348	$ 1,909,613	$ 2,101,035	$ 2,211,412

Operating revenues	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Investment income and interest on loans:										
Investment income	$ 200,989	$ 175,203	$ 159,884	$ 179,119	$ 297,193	$ 321,269	$ 203,577	$ 171,062	$ 155,152	$ 258,403
Interest income on loans	518,207	432,288	352,837	260,073	289,157	421,861	347,648	251,050	216,034	132,891
Total investment income and interest income on loans	719,196	607,491	512,721	439,192	586,350	743,130	551,225	422,112	371,186	391,294
Deposits	41,923	94,023	110,981	165,774	229,712	302,397	228,596	113,276	60,270	80,774
Other borrowings	345,117	344,535	256,114	198,370	208,678	256,974	200,619	144,492	129,795	132,163
Total interest expense	387,040	438,558	367,095	364,144	438,390	559,371	429,215	257,768	190,065	212,937
Net interest income	$ 332,156	$ 168,933	$ 145,626	$ 75,048	$ 147,960	$ 183,759	$ 122,010	$ 164,344	$ 181,121	$ 178,357

Yields	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
ASSETS:	%	%	%	%	%	%	%	%	%	%
Federal funds sold and securities purchased under agreements to resell	0.67	0.65	0.20	1.32	4.34	5.38	4.17	2.32	1.28	1.60
Deposits placed with banks	0.33	6.43	0.28	2.65	4.61	5.66	5.37	3.28	1.01	2.68
Investments and investment contracts	3.65	2.36	1.18	2.52	4.19	4.87	4.81	4.30	3.76	4.03
Loans receivable, net	6.18	5.63	4.95	4.02	5.60	6.27	5.22	4.59	4.74	5.24
Total interest earning assets	4.83	4.32	3.07	3.30	4.93	5.80	5.02	4.30	3.86	4.04
LIABILITIES:										
Commercial paper	-	-	-	5.23	4.42	4.15	3.56	1.95	1.02	1.27
Deposits and certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	0.72	1.61	1.04	2.08	3.93	5.30	4.13	2.16	1.18	2.04
Certificates of indebtedness	0.42	0.25	0.23	2.04	4.14	4.75	4.56	4.17	3.95	3.71
Securities sold under agreements to repurchase	0.63	1.54	2.61	3.36	4.81	4.89	3.65	1.61	1.67	2.69
Bonds and notes payable	5.61	6.42	5.71	6.45	4.93	5.39	5.89	6.03	5.69	6.46
Total interest bearing liabilities	3.03	3.66	2.64	3.42	4.35	5.24	4.43	3.12	2.62	3.43
Net interest yield	1.80	0.66	0.42	(0.12)	0.58	0.56	0.59	1.19	1.24	0.61
Net interest margin	2.23	1.20	1.07	(0.01)	0.79	0.66	0.66	1.25	1.31	0.82
Return on average assets	(0.40)	0.27	0.66	0.75	1.15	1.56	1.29	(4.03)	1.42	1.85
Change in net assets to average capital	(2.47)	1.57	3.74	3.90	5.64	8.00	6.62	(16.55)	5.14	6.87
Average capital to average assets	16.32	17.35	17.78	19.17	20.42	19.45	19.56	24.34	27.63	26.92
90 day Libor										
Ending	0.46	0.25	0.53	0.60	2.78	5.35	5.00	3.12	1.11	1.28
Average	0.47	0.31	0.34	1.96	4.14	5.38	4.29	2.33	1.13	1.57

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Principal Revenue Payers - Government-Wide

Last Seven Fiscal Years

Name/Category	2012 Interest Income on Loans	2012 Percentage of Total Interest Income on Loans %	2011 Interest Income on Loans	2011 Percentage of Total Interest Income on Loans %	2010 Interest Income on Loans	2010 Percentage of Total Interest Income on Loans %
Puerto Rico Highways and Transportation Authority	$ 99,354,442	19.17	$ 62,716,603	14.51	$ 34,849,095	9.88
Puerto Rico Department of Treasury	68,118,201	13.14	62,040,402	14.35	58,518,365	16.59
Puerto Rico Aqueduct and Sewer Authority	45,363,189	8.75	51,400,725	11.89	26,626,802	7.55
Special Communities Irrevocable Trust	25,736,568	4.97	25,978,647	6.01	25,057,343	7.10
Puerto Rico Tourism Development Fund	14,897,717	2.87	15,042,879	3.48	9,877,633	2.80
Puerto Rico Public Building Authority	14,362,288	2.77	15,862,615	3.67	9,638,402	2.73
Puerto Rico Medical Services Administration	14,353,830	2.77				
Puerto Rico Health Insurance Administration	12,296,518	2.37				
Puerto Rico Convention Center District Authority	10,325,340	1.99	10,426,949	2.41	9,086,388	2.58
Puerto Rico Ports Authority	9,113,574	1.76	-	-	-	-
Puerto Rico Department of Education		-	8,043,368	1.86	-	-
Puerto Rico Health Department		-	7,330,944	1.70		
Municipal Revenue Collection Center		-	7,252,068	1.68	10,161,661	2.88
Office of Management and Budget	-	-	-	-	7,890,899	2.24
Puerto Rico Electric Power Authority	-	-	-	-	7,770,638	2.20
Department of Transportation and Public Works	-	-	-	-	-	-
Agricultural Services Administration	-	-	-	-	-	-
Public Housing Administration	-	-	-	-	-	-
Puerto Rico Land Authority	-	-	-	-	-	-
Dedicated Sales Tax Fund	-	-	-	-	-	-
					-	-
	313,921,665	60.58	266,095,200	61.55	199,477,224	56.54
						-
Other public entities	102,485,836	19.78	87,702,751	20.29	98,490,374	27.91
						-
Municipalities	71,013,800	13.70	51,730,519	11.97	33,148,400	9.39
Private sector	30,785,630	5.94	26,760,068	6.19	21,720,520	6.16
Total interest income on loans	$ 518,206,931	100.00	$ 432,288,538	100.00	$ 352,836,518	100.00
Total number of borrowers	4,045		7,725		5,568	

Source: Accounting Department (Loans subledger)

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

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

REVENUE CAPACITY

Principal Revenue Payers - Government-Wide

Last Seven Fiscal Years

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

Source: Accounting Department (Loans subledger)

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

(Concluded)

DEBT CAPACITY

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY INFORMATION

Interest Earning Assets and Interest Bearing Liabilities - Government-Wide

Last Ten Fiscal Years

(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Interest earning assets										
Governmental activities:										
Deposits placed with banks	$ 9,179	$ 68,101	$ 6,049	$ 26,362	$ 49,876	$ 42,268	$ 10,756	$ 4,200	$ 5,049	$ 5,054
Investments and investment contracts	63,844	70,165	93,892	99,258	118,011	86,787	173,216	200,296	235,730	326,986
Loans receivable-net			-	2,063	2,520	2,899	3,749	6,577	4,860	7,331
Total governmental activities	73,023	138,266	99,941	127,683	170,407	131,954	187,721	211,073	245,639	339,371
Business-type activities:										
Federal funds sold	$ 277,900	$ 88,850	$ 331,000	$ 1,364,000	$ 316,620	$ 945,500	$ 1,935,000	$ 1,411,000	$ 757,458	$ 1,083,400
Securities purchased under agreements to resell	200,000	-	-	-	-	-	-	240,000	246,469	150,000
Deposits placed with banks	977,405	672,362	38,854	1,086,366	1,566,118	1,881,810	552,266	350,503	308,703	407,975
Investments and investment contracts	5,319,171	5,278,429	6,124,707	4,274,332	4,287,850	2,048,405	2,269,504	2,115,873	3,040,625	3,903,265
Loans receivable-net	8,374,104	8,395,959	6,966,384	6,683,341	5,460,899	6,238,862	7,276,712	5,659,239	4,199,022	2,628,933
Total business-type activities	15,148,580	14,435,600	13,460,945	13,408,039	11,631,487	11,114,577	12,033,482	9,776,615	8,552,277	8,173,573
Total primary government	$15,221,603	$ 14,573,866	$ 13,560,886	$ 13,535,722	$ 11,801,894	$ 11,246,531	$ 12,221,203	$ 9,987,688	$ 8,797,916	$ 8,512,944
Interest bearing liabilities										
Governmental activities:										
Notes payable	$ 3,427	$ 4,811	$ 4,811	$ 4,811	$ 4,962	$ 10,199	$ 10,244	$ 10,339	$ 10,339	$ 9,927
Bonds payable	-	-	-	-	-	-	41,650	78,070	114,175	148,570
Total governmental activities	3,427	4,811	4,811	4,811	4,962	10,199	51,894	88,409	124,514	158,497
Business-type activities:										
Deposits	6,066,934	5,553,688	6,149,198	7,554,808	7,003,534	5,457,994	5,783,278	4,872,660	3,812,894	3,536,558
Certificates of indebtedness	-	4,300	11,800	11,800	11,800	11,800	54,884	261,056	251,799	242,984
Securities sold under agreements to repurchase	884,484	970,819	1,058,835	859,053	687,200	455,000	515,000	439,034	160,000	190,017
Commercial paper	-	-	-	-	500	575,861	985,131	1,191,202	918,410	761,167
Bonds, notes and participation agreement payable	5,590,207	5,509,072	3,383,756	2,098,726	714,829	1,704,048	1,745,058	17,540	-	-
Bonds, notes and mortgage-backed certificates payable	367,923	675,953	722,449	959,133	1,417,257	1,283,260	1,343,215	1,383,913	1,504,461	1,623,100
Total business-type activities	12,909,548	12,713,832	11,326,038	11,483,520	9,835,120	9,487,963	10,426,566	8,165,405	6,647,564	6,353,826
Total primary government	$12,912,975	$ 12,718,643	$ 11,330,849	$ 11,488,331	$ 9,840,082	$ 9,498,162	$ 10,478,460	$ 8,253,814	$ 6,772,078	$ 6,512,323
Net assets										
Governmental activities	$ (45,719)	$ (35,606)	$ (1,579)	$ 28,875	$ 83,098	$ 93,695	$ 25,708	$ 6,322	$ 17,309	$ 16,146
Business-type activities	2,566,864	2,619,748	2,545,540	2,421,807	2,275,626	2,177,545	2,070,729	1,955,841	2,298,828	2,139,633
Total primary government	$ 2,521,145	$ 2,584,142	$ 2,543,961	$ 2,450,682	$ 2,358,724	$ 2,271,240	$ 2,096,437	$ 1,962,163	$ 2,316,137	$ 2,155,779
Interest bearing liabilities to interest earning assets	%	%	%	%	%	%	%	%	%	%
Governmental activities	4.69	3.48	4.81	3.77	2.91	7.73	27.64	41.89	50.69	46.70
Business-type activities	85.22	88.07	84.14	85.65	84.56	85.37	86.65	83.52	77.73	77.74
Total primary government	84.83	87.27	83.56	84.87	83.38	84.45	85.74	82.64	76.97	76.50
Interest bearing liabilities to net assets										
Governmental activities	(7.50)	(13.51)	(304.69)	16.66	5.97	10.89	201.86	1,398.43	719.36	981.65
Business-type activities	502.93	485.31	444.94	474.17	432.19	435.72	503.52	417.49	289.17	296.96
Total primary government	512.19	492.18	445.40	468.78	417.18	418.19	499.82	420.65	292.39	302.09
Depositors	355	355	352	410	419	357	472			

Notes:

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

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

DEBT CAPACITY

Interest Income Pledged to Pay Debt Service

Last Ten Fiscal Years

(In thousands)

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Business-type activities										
Investment income	$ 43,298	$ 71,481	$ 87,970	$ 83,309	$ 78,721	$ 84,056	$ 78,103	$ 77,245	$ 86,902	$ 84,838
Debt Service:										
Principal	$ 218,332	$ 74,605	$ 223,623	$ 171,817	$ 91,611	$ 236,021	$ 315,020	$ 134,037	$ 156,210	$ 175,960
Interest expense	36,853	56,301	62,176	71,129	71,027	74,082	78,077	83,715	88,357	85,517
Total debt service	$ 255,185	$ 130,906	$ 285,799	$ 242,946	$ 162,638	$ 310,103	$ 393,097	$ 217,752	$ 244,567	$ 261,477
Coverage	16.97%	54.60%	30.78%	34.29%	48.40%	27.11%	19.87%	35.47%	35.53%	32.45%

DEMOGRAPHIC AND ECONOMIC

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

	FISCAL YEARS									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Population (thousands of habitants)	3,714	3,731	3,751	3,772	3,794	3,813	3,824	3,826	3,825	3,821
Total Personal Income (million of $)	59,411	58,915	58,011	56,124	52,110	50,842	48,820	45,566	44,216	42,039
Per Capita Personal Income ($/habitant)	15,995	15,790	15,467	14,879	13,735	13,333	12,766	11,908	11,560	11,001
Unemployment Rate (%)	16.0%	16.0%	13.4%	11.0%	10.4%	11.0%	10.6%	11.4%	12.1%	12.1%

Source:

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

Comments:

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

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

All figures from fiscal years 2002 to 2010 were revised by the Board of Planning and Statistics of Puerto Rico.

EMPLOYMENT BY MAJOR INDUSTRIAL SECTOR

(In thousands of persons 16 years and over)

FOR FISCAL YEARS ENDED ON JUNE 30,	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
TOTAL	**1,085**	**1,077**	**1,103**	**1,167**	**1,218**	**1,263**	**1,253**	**1,238**	**1,206**	**1,188**
Growth Rate	0.7%	-2.4%	-5.5%	-4.1%	-3.6%	0.8%	1.3%	2.6%	1.5%	3.1%
Services	359	344	330	353	359	364	354	349	340	328
Industry / Total	33.1%	31.9%	29.9%	30.2%	29.5%	28.8%	28.2%	28.2%	28.2%	27.6%
Growth Rate	4.4%	4.2%	-6.5%	-1.7%	-1.4%	2.8%	1.4%	2.6%	3.7%	5.5%
Domestic service	6	8	7	7	7	8	7	11	12	11
Others	353	336	323	346	352	356	347	338	328	318
Government	241	240	261	271	279	296	278	274	268	269
Industry / Total	22.2%	22.3%	23.7%	23.2%	22.9%	23.4%	22.2%	22.1%	22.2%	22.6%
Growth Rate	0.4%	-8.0%	-3.7%	-2.9%	-5.7%	6.5%	1.5%	2.2%	-0.4%	4.7%
Trade	240	241	240	244	257	260	271	261	253	252
Industry / Total	22.1%	22.4%	21.8%	20.9%	21.1%	20.6%	21.6%	21.1%	21%	21.2%
Growth Rate	-0.4%	0.4%	-1.6%	-5.1%	-1.2%	-4.1%	3.8%	3.2%	0.4%	6.8%
Wholesale	22	23	25	27	31	28	24	25	24	25
Retail	218	217	215	217	226	232	248	236	228	228
Manufacturing	99	99	102	112	129	135	136	138	136	134
Industry / Total	9.1%	9.2%	9.2%	9.6%	10.6%	10.7%	10.9%	11.2%	11.3%	11.3%
Growth Rate	0.0%	-2.9%	-8.9%	-13.2%	-4.4%	-0.7%	-1.4%	1.5%	1.5%	-2.2%
Sugar	a/	a/	a/	a/	a/	a/	a/	a/	a/	a/
Tobacco products	a/	a/	a/	a/	a/	a/	2	a/	a/	a/
Factory needlework	9	9	7	9	9	8	9	9	10	12
Alcoholic beverages and beer	a/	a/	a/	a/	a/	a/	a/	a/	a/	a/
Home needlework	2	a/	a/	a/	a/	a/	a/	a/	a/	a/
Others	88	90	95	103	120	127	125	126	125	122
Construction	51	47	54	68	82	94	87	87	88	82
Industry / Total	4.7%	4.4%	4.9%	5.8%	6.7%	7.4%	6.9%	7.0%	7.3%	6.9%
Growth Rate	8.5%	-13.0%	-20.6%	-17.1%	-12.8%	8.0%	0.0%	-1.1%	7.3%	-2.4%
Finance, insurance, and real estate	36	41	41	43	43	45	47	43	41	42
Industry / Total	3.3%	3.8%	3.7%	3.7%	3.5%	3.6%	3.7%	3.5%	3.4%	3.5%
Growth Rate	-12.2%	0.0%	-4.7%	0.0%	-4.4%	-4.3%	9.3%	4.9%	-2.4%	0.0%
Transportation	16	20	25	24	23	23	27	27	27	28
Industry / Total	1.5%	1.9%	2.3%	2.1%	1.9%	1.8%	2.2%	2.2%	2.2%	2.4%
Growth Rate	-20.0%	-20.0%	4.2%	4.3%	0.0%	-14.8%	0.0%	0.0%	-3.6%	-6.7%
Agriculture, forestry, and fishing	17	17	17	19	15	16	22	26	25	24
Industry / Total	1.6%	1.6%	1.5%	1.6%	1.2%	1.3%	1.8%	2.1%	2.1%	2.0%
Growth Rate	0.0%	0.0%	-10.5%	26.7%	-6.3%	-27.3%	-15.4%	4.0%	4.2%	4.3%
Sugar cane	a/	a/	a/	a/	a/	a/	a/	a/	a/	a/
Coffee	3	4	5	6	4	3	8	6	6	8
Agriculture, forestry, and fishing (continued)										
Bananas	2	3	2	2	2	3	3	4	4	4
Forestry and fishing	a/	a/	a/	a/	a/	a/	a/	a/	a/	a/
Other farms	12	10	10	11	9	10	11	16	16	13
Communication	12	15	16	15	16	16	16	17	16	15
Industry / Total	1.1%	1.4%	1.5%	1.3%	1.3%	1.3%	1.3%	1.4%	1.3%	1.3%
Growth Rate	-20.0%	-6.3%	6.7%	-6.3%	0.0%	0.0%	-5.9%	6.3%	6.7%	-16.7%
Other public utilities	13	13	16	18	15	14	16	15	13	14
Industry / Total	1.2%	1.2%	1.5%	1.5%	1.2%	1.1%	1.3%	1.2%	1.1%	1.2%
Growth Rate	0.0%	-18.8%	-11.1%	20.0%	7.1%	-12.5%	6.7%	15.4%	-7.1%	0.0%
Mining	a/	a/	a/	a/	a/	a/	a/	a/	a/	a/

a/ Less than 2,000.

Note: Figures revised in accordance with the Census of Population & Housing of 2000 (Includes self employed.)

Source: Department of Labor and Human Resources, Bureau of Labor Statistics, Household Survey

Comment: Total employment increased .7% from 2011 to 2012. Transportation, Finance, Insurance and Real estate, and Communication were the most affected industries with declines of 20%, 12%, and 20%, respectively. Other sector affected was Trade, with a reduction of .4%.

OPERATING

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
OPERATING INFORMATION
Government Employees by Function / Program
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Function / Program										
GDB Operating Fund	249	246	284	299	271	342	350	360	352	340
Housing Finance Authority	139	129	144	165	155	183	186	190	193	169
	388	375	428	464	426	525	536	550	545	509

Notes:

During 2003, GDB restructured several of its departments in order to expand the services provided to its clients.

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

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

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
(A Component Unit of the Commonwealth of Puerto Rico)
OPERATING INFORMATION
Capital Assets - Government-Wide
Last Ten Fiscal Years

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Capital assets not being depreciated:										
Land	$ 11,725,000	$ 2,845,000	$ 2,845,000	$ 2,845,005	$ 10,970,990	$ 10,970,990	$ 2,845,000	$ 2,845,000	$ 2,955,000	$ 2,955,000
Construction in progress	-	-	-	-	-	-	10,701,311	9,753,214	-	-
Land under development	73,290,540	56,454,861	-	-	-	-	-	-	-	-
Total capital assets not being depreciated	85,015,540	59,299,861	2,845,000	2,845,005	10,970,990	10,970,990	13,546,311	12,598,214	2,955,000	2,955,000
Capital assets being depreciated:										
Building	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048	8,988,048
Leasehold improvements	4,715,152	4,461,711	4,429,170	4,017,966	3,994,861	2,450,008	2,342,878	459,264	1,283,538	1,239,441
Information systems	2,353,997	2,097,917	3,707,774	3,208,527	3,322,143	3,418,279	4,758,833	4,667,493	3,565,020	5,448,691
Office furniture and equipment	2,896,601	2,746,658	2,687,793	2,722,277	2,851,922	3,042,790	2,872,872	3,058,337	3,381,952	3,812,710
Software	4,263,003	4,425,172	3,522,685	3,473,645	3,798,777	3,773,033	4,673,468	2,276,218	4,921,753	3,737,471
Vehicles	283,254	283,254	217,119	223,125	207,915	257,885	431,087	506,184	439,096	404,332
Total capital assets being depreciated	23,500,055	23,002,760	23,552,589	22,633,588	23,163,666	21,930,043	24,067,186	19,955,544	22,579,407	23,630,693
Less accumulated depreciation and amortization for:										
Building	(2,584,064)	(2,359,363)	(2,134,660)	(1,909,959)	(1,685,258)	(1,460,557)	(1,235,856)	(1,011,155)	(786,454)	(561,753)
Leasehold improvements	(2,617,842)	(2,176,140)	(1,746,839)	(1,358,320)	(1,005,286)	(766,095)	(309,645)	(165,109)	(875,623)	(781,537)
Information systems	(1,744,014)	(1,645,322)	(2,468,416)	(1,690,944)	(1,562,381)	(2,981,543)	(3,808,911)	(3,472,051)	(2,716,637)	(4,582,605)
Office furniture and equipment	(2,023,074)	(1,863,879)	(1,949,436)	(1,625,414)	(1,471,793)	(1,919,866)	(1,831,200)	(1,955,530)	(1,590,435)	(2,177,740)
Software	(3,056,247)	(2,946,573)	(2,163,973)	(1,267,463)	(830,430)	(1,042,847)	(2,298,953)	(367,692)	(4,109,476)	(3,451,295)
Vehicles	(271,911)	(261,619)	(184,528)	(174,235)	(182,667)	(204,878)	(269,235)	(305,040)	(252,101)	(214,173)
Total accumulated depreciation and amortization	(12,297,152)	(11,252,896)	(10,647,852)	(8,026,335)	(6,737,815)	(8,375,786)	(9,753,800)	(7,276,577)	(10,330,726)	(11,769,103)
Total capital assets being depreciated–net	11,202,903	11,749,864	12,904,737	14,607,253	16,425,851	13,554,257	14,313,386	12,678,967	12,248,681	11,861,590
Total capital assets–net	$ 96,218,443	$ 71,049,725	$ 15,749,737	$ 17,452,258	$ 27,396,841	$ 24,525,247	$ 27,859,697	$ 25,277,181	$ 15,203,681	$ 14,816,590

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

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

(A Component Unit of the Commonwealth of Puerto Rico)

OPERATING INFORMATION

SERVICE LEVEL -LOANS ORIGINATED

Last Ten Fiscal Years

Function / Program	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
GDB Operating Fund	180	202	172	154	152	119	98	125	59	57
Housing Finance Authority	94	2,691	1,503	406	679	519	600			
Tourism Development Fund	3	2	2	1	1				4	
Development Fund	-	1	1	-	-	-	-	-	-	-
	277	2,896	1,678	561	832	638	698	125	63	57

Source : Accounting Department from the loans subledger.

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