NEW ISSUE - BOOK ENTRY ONLY **RATING: BBB by S&P**

See "Book-Entry Only System" under *The 2009 Series A Notes*

$250,000,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
SENIOR NOTES, 2009 SERIES A

The Senior Notes, 2009 Series A (the "2009 Series A Notes") are being issued by Government Development Bank for Puerto Rico ("Government Development Bank" or the "Bank") pursuant to the provisions of a trust indenture, dated as of February 17, 2006, as amended (the "Indenture"), between the Bank and Banco Popular de Puerto Rico, as trustee.

The 2009 Series A Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Government Development Bank guarantees of obligations of others for borrowed money now or hereafter outstanding.

The 2009 Series A Notes have the following characteristics:

- The 2009 Series A Notes will be issued as fully registered notes without coupons in denominations of $5,000 principal amount and integral multiples of $1,000 in excess thereof.
- The 2009 Series A Notes will be registered under The Depository Trust Company's book-entry only system. Purchasers of the 2009 Series A Notes will not receive definitive 2009 Series A Notes.
- Interest on the 2009 Series A Notes will accrue from their date of issuance and will be payable monthly on the first day of each month, commencing on March 1, 2009.
- The inside cover page contains information on the maturities, interest rates, prices or yields of the 2009 Series A Notes.
- The 2009 Series A Notes are subject to redemption at the option of the Bank on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.
- The 2009 Series A Notes and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Under the provisions of existing Federal statutes and regulations now in force, under certain circumstances, interest on the 2009 Series A Notes will be exempt from United States federal income taxation to individuals who are bona fide residents of the Commonwealth of Puerto Rico and corporations organized under the laws of the Commonwealth of Puerto Rico. Except as described above and in *Tax Matters* herein, interest on the 2009 Series A Notes is included in gross income for United States federal income tax purposes. See *Tax Matters* herein.
- The 2009 Series A Notes will be dated their date of delivery.
- The 2009 Series A Notes are expected to be available for delivery through the facilities of The Depository Trust Company on or about January 29, 2009.

THE 2009 SERIES A NOTES DO NOT CONSTITUTE AN OBLIGATION OF THE COMMONWEALTH OF PUERTO RICO OR ANY OF ITS POLITICAL SUBDIVISIONS OR PUBLIC INSTRUMENTALITIES, OTHER THAN GOVERNMENT DEVELOPMENT BANK, AND NEITHER THE COMMONWEALTH OF PUERTO RICO NOR ANY OF ITS POLITICAL SUBDIVISIONS OR PUBLIC INSTRUMENTALITIES IS LIABLE THEREON. NEITHER THE GOOD FAITH, CREDIT AND TAXING POWER OF THE COMMONWEALTH OF PUERTO RICO NOR THAT OF ANY OF ITS POLITICAL SUBDIVISIONS OR INSTRUMENTALITIES, IS PLEDGED FOR THE PAYMENT OF THE 2009 SERIES A NOTES.

The 2009 Series A Notes are offered for delivery when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Sidley Austin LLP, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Fiddler González & Rodríguez, P.S.C., San Juan, Puerto Rico.

Joint Lead Managers

UBS Financial Services Incorporated of Puerto Rico **Popular Securities** **Santander Securities**

BBVAPR MSD **Barclays Capital**
Merrill Lynch & Co. **Oriental Financial Services Corporation**
Samuel A. Ramírez & Co., Inc. **Scotia Capital** **Wachovia Capital Markets, LLC**

January 27, 2009

$250,000,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
SENIOR NOTES, 2009 SERIES A

Maturity Date February 1,	Amount	Interest Rate	Price	CUSIP
2012	$79,000,000.00	5.50%	100.00%	745177DN2
2012*	25,000,000.00	5.50	100.00	745177DP7
2014	95,000,000.00	6.00	100.00	745177DQ5
2016	5,000,000.00	6.25	100.00	745177DR3
2019	46,000,000.00	6.50	100.00	745177DS1

* Institutional Order

No dealer, broker, sales representative or other person has been authorized by the Bank to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Bank. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2009 Series A Notes, by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Bank and other official sources that are believed to be reliable. The information set forth herein regarding the Underwriters has been obtained from the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Bank since the date hereof. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE 2009 SERIES A NOTES AND GOVERNMENT DEVELOPMENT BANK'S OUTSTANDING NOTES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CERTAIN STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT REFLECT NOT HISTORICAL FACTS BUT FORECASTS AND "FORWARD-LOOKING STATEMENTS." THESE STATEMENTS ARE BASED UPON A NUMBER OF ASSUMPTIONS AND ESTIMATES THAT ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE BANK. IN THIS RESPECT, THE WORDS "ESTIMATES," "PROJECTS," "ANTICIPATES," "EXPECTS," "INTENDS," "BELIEVES" AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALL PROJECTIONS, FORECASTS, ASSUMPTIONS, EXPRESSIONS OF OPINIONS, ESTIMATES AND OTHER FORWARD-LOOKING STATEMENTS ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THIS CAUTIONARY STATEMENT: ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY FORWARD-LOOKING STATEMENTS.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED IN THIS OFFICIAL STATEMENT, EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF EACH PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE OF THE TRANSACTIONS DESCRIBED IN THIS OFFICIAL STATEMENT AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN UNITED STATES TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS BETWEEN UBS FINANCIAL SERVICES INCORPORATED OF PUERTO RICO, POPULAR SECURITIES, SANTANDER SECURITIES, THE OTHER MEMBERS OF THE UNDERWRITING SYNDICATE OR THEIR RESPECTIVE REPRESENTATIVES AND PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED IN THIS OFFICIAL STATEMENT.

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SUMMARY

This summary highlights selected information contained elsewhere in this Official Statement. Because it is a summary, it does not contain all the information that a purchaser should consider before purchasing the 2009 Series A Notes offered hereby. A purchaser should read the entire Official Statement.

Government Development Bank

Government Development Bank for Puerto Rico ("Government Development Bank" or the "Bank") is a public corporation and governmental instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth") created by law in 1948. Its principal functions are to act as fiscal agent and financial advisor to the Commonwealth and its instrumentalities, and to provide interim and, in some cases, long-term financing to the Commonwealth and its instrumentalities.

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

As of June 30, 2008, the Bank had consolidated total assets of $12.3 billion, including $5.5 billion of loans receivable, mostly from the Commonwealth and its instrumentalities, and consolidated net assets of $2.4 billion. For the year ended June 30, 2008, the Bank's consolidated operating revenues were $769.6 million and the change in net assets was $87.5 million.

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

Details of the 2009 Series A Notes

Offering	Government Development Bank for Puerto Rico Senior Notes, 2009 Series A (the "2009 Series A Notes").
Issuer	Government Development Bank for Puerto Rico.
Principal Amount of the 2009 Series A Notes	$250,000,000
Use of Proceeds	The Bank will use the proceeds from the sale of the 2009 Series A Notes for general corporate purposes, including but not limited to increasing its investment portfolio and making loans to, and purchasing obligations of, the Commonwealth and its public corporations.
Interest on the Notes	Interest on the 2009 Series A Notes is payable monthly on the first day of each month, commencing on March 1, 2009.
Book-Entry Form	The 2009 Series A Notes will be issued in book-entry form through the book-entry only system of The Depository Trust Company. Purchasers of the 2009 Series A Notes will not receive definitive 2009 Series A Notes.
Redemption	The 2009 Series A 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 the Bank shall direct), at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date, subject to at least 30 days prior notice.
Note Program	The 2009 Series A Notes are being issued pursuant to the provisions of a trust indenture, dated as of February 17, 2006, as amended (the "Indenture"), between Government Development Bank and Banco Popular de Puerto Rico, as trustee (the "Trustee"), and a Resolution adopted by the Bank's Board of Directors (the "Resolution"). Under the Indenture, the Bank may issue additional notes on a parity with any notes issued under the Indenture. The Bank has issued the following notes under the Indenture: (i) $885,000,000 Senior Notes, 2006 Series A (the "2006 Series A Notes"); (ii) $740,000,000 Senior Notes, 2006 Series B; (iii) $81,960,000 Senior Notes, 2006 Series C (AMT); (iv) $944,533,000 Senior Notes, 2008 Series A; and (v) $285,467,000 Senior Notes, 2008 Series B. The 2006 Series A Notes were redeemed in their entirety in June 2008.
Unsecured Notes	The 2009 Series A Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Government Development Bank guarantees of obligations of others for borrowed money now or hereafter outstanding. Neither the good faith, credit and taxing power of the Commonwealth nor that of any of its political subdivisions or instrumentalities is pledged for the payment of the Notes.

Additional Debt Securities	Under the Indenture, the Bank may issue additional debt securities and may otherwise incur additional indebtedness without restriction.
Availability of Assets of Government Development Bank's Subsidiaries for Payment of the Notes	Because the 2009 Series A Notes are issued by Government Development Bank and are not guaranteed by the Bank's subsidiaries, holders of the 2009 Series A Notes will not have recourse against the Bank's subsidiaries. As of June 30, 2008, approximately $2.0 billion out of Government Development Bank's consolidated total assets of $12.3 billion were held by the Bank's subsidiaries and are, therefore, unavailable for payment of debt service on the 2009 Series A Notes.
Absence of Public Market	The 2009 Series A Notes are a new issue of securities. There is no assurance that a secondary market for the 2009 Series A Notes will develop, or if it does develop, that it will provide the holders of the 2009 Series A Notes with liquidity for their investment or that it will continue for the life of the 2009 Series A Notes.
Governing Law	All rights and obligations under the 2009 Series A Notes will be governed by and construed in accordance with the laws of the Commonwealth of Puerto Rico.
Rating	The Bank's long-term debt obligations are currently rated "BBB" by Standard & Poors, a division of The McGraw-Hill Companies, Inc. ("S&P"). The 2009 Series A Notes have received a rating of "BBB" by S&P. For a description of the rating on the 2009 Series A Notes, see *Rating*.
Tax Matters	The 2009 Series A Notes and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Under the provisions of existing Federal statutes and regulations now in force, under certain circumstances, interest on the 2009 Series A Notes will be exempt from United States federal income taxation to individuals who are bona fide residents of the Commonwealth of Puerto Rico and corporations organized under the laws of the Commonwealth of Puerto Rico. Except as described above and in *Tax Matters* herein, interest on the 2009 Series A Notes is included in gross income for United States federal income tax purposes. See *Tax Matters* herein.

FINANCIAL HIGHLIGHTS OF
GOVERNMENT DEVELOPMENT BANK AND ITS SUBSIDIARIES

	As of and for the year ended June 30		
	2008	2007	2006
		(in thousands)	
Financial Condition Trends Government Wide Total Amounts[1]			
Assets			
Total invested assets	$ 6,338,475	$ 5,004,770	$ 4,940,742
Loans receivable, net	5,463,419	6,241,761	7,280,461
Total assets	12,315,995	11,927,084	12,746,813
Liabilities			
Deposits and commercial paper	7,004,034	6,033,855	6,768,409
Other borrowed funds	2,836,049	3,464,306	3,710,051
Total liabilities	9,957,272	9,655,844	10,650,376
Net assets	2,358,723	2,271,240	2,096,437
Income and Expense Trends Government Wide Total Amounts[1]			
Total investment income and interest income on loans	586,350	743,130	551,224
Total interest expense	438,390	559,370	429,214
Net investment income and interest income on loans	147,959	183,760	122,010
Provision (credit) for loan losses	1,847	(4,640)	6,334
Non-interest income and other items	183,200	229,958	269,133
Non-interest expense and other items	237,446	239,347	245,639
Contributions to others	4,384	4,207	4,895
Change in net assets	87,483	174,803	134,274
Profitability and Capitalization Ratios Enterprise Funds[2]			
Return on total average assets	0.81%	0.87%	1.00%
Change in net assets to average net assets	4.40%	5.03%	5.71%
Average net assets to average total assets	18.47%	17.28%	17.56%
Net assets to total assets	18.60%	18.33%	16.30%
Interest rate spread	0.69%	0.60%	0.64%
Net interest margin	1.36%	1.38%	1.30%

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

2 The financial statements for the enterprise funds provide the same type of information as the business-type activities in the government wide financial statements, only in more detail.

$250,000,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
SENIOR NOTES, 2009 SERIES A

INTRODUCTORY STATEMENT

This Official Statement of Government Development Bank for Puerto Rico ("Government Development Bank" or the "Bank"), which includes the cover page, the inside cover page, the Table of Contents, the Summary, the Financial Highlights of Government Development Bank and its Subsidiaries and the Appendices, and the information incorporated by reference as set forth below, is provided to furnish information with respect to its $250,000,000 Senior Notes, 2009 Series A (the "2009 Series A Notes"). The Bank is a public corporation and an instrumentality of the Commonwealth of Puerto Rico (the "Commonwealth").

The 2009 Series A Notes are being issued pursuant to the provisions of a trust indenture, dated as of February 17, 2006, as amended (the "Indenture"), between the Bank and Banco Popular de Puerto Rico, as trustee (the "Trustee"), and a Resolution adopted by the Board of Directors of Government Development Bank on May 17, 2006 (the "Resolution"). Under the provisions of the Indenture, the Bank may issue additional notes on a parity with any notes issued under the Indenture. The Bank has issued the following notes under the Indenture: (i) $885,000,000 Senior Notes, 2006 Series A (the "2006 Series A Notes") on February 17, 2006; (ii) $740,000,000 Senior Notes, 2006 Series B on May 25, 2006; (iii) $81,960,000 Senior Notes, 2006 Series C (AMT) on June 8, 2006; (iv) $944,533,000 Senior Notes, 2008 Series A on December 30, 2008; and (v) $285,467,000 Senior Notes, 2008 Series B on January 8, 2009 (said 2008 Series A Notes and 2008 Series B Notes, collectively, the "2008 Notes"). The 2006 Series A Notes were redeemed in their entirety in June 2008.

The 2009 Series A Notes, the outstanding notes previously issued under the Indenture, and any additional notes that the Bank may from time to time issue under the Indenture (collectively, the "Notes") are general, unsecured, senior obligations of the Bank, ranking on a parity with all other general, unsecured and unsubordinated obligations of the Bank for borrowed money and with unsecured and unsubordinated Government Development Bank guarantees of obligations of others for borrowed money now or hereafter outstanding.

The 2009 Series A Notes are not a debt of the Commonwealth or any of its political subdivisions or instrumentalities, other than Government Development Bank, and neither the Commonwealth nor any of its political subdivisions or instrumentalities, other than Government Development Bank, is required to pay the 2009 Series A Notes.

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, loans to the Commonwealth and its instrumentalities represent a significant portion of the Bank's assets. Many of these loans are payable from legislative appropriations from the Commonwealth's General Fund. Accordingly, the payment of these loans may be affected by budgetary constraints of the Commonwealth. For more information on the impact of the Commonwealth's current fiscal situation on the Bank's finances, see "General Financial Information – Possible Impact of the Commonwealth's Fiscal Imbalance on the Finances of the Bank" under *The Bank.* Government Development Bank may also be called upon to provide financial assistance to instrumentalities of the Commonwealth at any time. The Bank is not required by law, however, to provide such assistance, and it is the Bank's current policy not to provide financing to instrumentalities of the Commonwealth (other than the central government) unless the Bank is satisfied that these instrumentalities have sufficient resources to repay such loans. For a discussion of the level and types of loans provided by Government Development Bank to the Commonwealth and its instrumentalities, see "Loans to the Commonwealth, its Public Corporations and Municipalities" under *The Bank.*

Because of the role played by Government Development Bank as lender to the Commonwealth and its instrumentalities and the effect that the financial condition of the Commonwealth and its instrumentalities may have on the financial condition and results of operations of Government Development Bank, this Official Statement includes a discussion of recent developments relating to the Commonwealth's budget deficit for fiscal year 2009 and the Commonwealth's current structural budget imbalance. For the same reason, this Official Statement also incorporates by reference the Commonwealth's Financial Information and Operating Data Report, dated May 31, 2008 (the "Commonwealth Report"), which appears as *Appendix I* to the Official Statement, dated September 5, 2008, for the offering of the Commonwealth's Public Improvement Bonds of 2008, Series A, and which sets forth important operating and financial information about the Commonwealth, including information about its economy, historical revenues and expenditures of its General Fund, the estimated year-end results of fiscal year 2008, the budget for fiscal years 2008 and 2009, and the debt of the Commonwealth's public sector. Some of the information appearing in the Commonwealth Report has been updated and appears below under the caption *Recent Developments Relating to the Commonwealth*. Purchasers of the 2009 Series A Notes should read the Commonwealth Report in its entirety and in conjunction with the information under the caption *Recent Developments Relating to the Commonwealth* herein.

This Official Statement includes descriptions of Government Development Bank as well as summaries of the terms of the 2009 Series A Notes and the Indenture. Such summaries and the references to all documents included herein do not purport to be complete, and each summary and reference is qualified in its entirety by reference to each such document, copies of which are available from the Underwriters prior to the issuance of the 2009 Series A Notes and from the Trustee thereafter. All references to the 2009 Series A Notes are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture.

Incorporation of Commonwealth Financial Information

This Official Statement incorporates by reference (i) the Commonwealth Report, and (ii) the Commonwealth's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, as amended, prepared by the Department of the Treasury of the Commonwealth (the "Commonwealth's Annual Financial Report"). The Commonwealth's Annual Financial Report includes the basic financial statements of the Commonwealth as of and for the fiscal year ended June 30, 2007, which have been audited by KPMG LLP, independent auditors, as stated in their report dated June 15, 2008, accompanying such financial statements. KPMG LLP did not audit the financial statements of the Public Buildings Authority capital project fund or the Children's Trust special revenue funds (major funds), and certain activities, funds and component units separately identified in its report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and its opinions, insofar as they relate to the amounts included for activities, funds and component units, separately identified in its report, are based solely on the reports of the other auditors. The Commonwealth's Annual Financial Report has been filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR").

Any appendix of an Official Statement or other disclosure document of the Commonwealth or of any instrumentality of the Commonwealth containing any revision to the Commonwealth Report or to the Commonwealth's Annual Financial Report that is filed with each NRMSIR and the Municipal Securities Rulemaking Board ("MSRB"), or any new or revised Commonwealth Report or Commonwealth Annual Financial Report or other document containing information that modifies or supersedes the information contained in the Commonwealth Report or in the Commonwealth's Annual Financial Report that is filed with each NRMSIR, in each case after the date hereof shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained in the Commonwealth's Annual Financial Report shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any such subsequently filed document modifies or supersedes such statement. Any statement contained in the Commonwealth Report or elsewhere herein shall also be deemed to be modified or superseded to the extent that a statement contained in any such subsequently filed document modifies or supersedes such statement.

Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. Any filing with each NRMSIR by the Bank of a document generally containing the same information set forth in its continuing disclosure reports or financial statements, after the date hereof and prior to the termination of any offering of the Notes, shall also be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. After June 30, 2009, in accordance with applicable federal regulations, filing of the abovementioned documents will be made only with the MSRB's EMMA system. See *Continuing Disclosure* below.

The Bank will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth's Annual Financial Report and/or the Commonwealth Report incorporated herein by reference. Requests should be directed to Executive Vice President, Government Development Bank for Puerto Rico, 135 West 50th Street, 22nd Floor, New York, New York 10020, telephone number (212) 333-0364, or Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-7060.

A copy of the Commonwealth's Annual Financial Report and the Commonwealth Report may also be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* below.

RECENT DEVELOPMENTS RELATING TO THE COMMONWEALTH

This section supplements the information appearing in the Commonwealth Report and should be read in conjunction therewith.

Results of 2008 Elections. On November 4, 2008, Luis G. Fortuño was elected as Governor of the Commonwealth of Puerto Rico; and on January 2, 2009 he was sworn into office. Governor Fortuño's political party, the New Progressive Party, also won a majority in the Senate and House of Representatives, which will provide a single political party control of the Executive and Legislative branches of the Commonwealth.

On November 13, 2008, Governor Fortuño recommended the appointment of Mr. Carlos M. García as President of the Bank and on December 31, 2008, the Board of Directors of the Bank appointed Carlos M. García as President of the Bank subject to ratification. The Board of Directors of the Bank ratified Mr. García's appointment as President of the Bank on January 7, 2009. Governor Fortuño also nominated the following persons to fiscal and Cabinet positions: Kenneth McClintock, as Secretary of the State Department, Juan Carlos Puig, as Secretary of the Treasury Department, Antonio M. Sagardía, Esq., as Secretary of the Justice Department, Carlos E. Chardón, as Secretary of the Education Department, Jaime Rivera Dueño, MD, as Secretary of the Health Department, María Sánchez Bras, as Director of the Office of Budget and Management, José Pérez Riera, as Secretary of Economic Development and Commerce Department, Miguel Romero, Esq., as Secretary of the Labor Department, Javier Rivera Aquino, as Secretary of the Agriculture Department, Javier Vázquez, as Executive Director of Puerto Rico Industrial Development Corporation, and Jaime López, as President of the Tourism Company and the Convention Center District Authority. Most of these appointments are subject to Senate confirmation.

Fiscal Year 2008 Preliminary Revenues and Expenditures. As discussed in greater detail in the Commonwealth Report, the budgeted General Fund expenses for fiscal year 2008 were $9.2 billion. Preliminary actual expenditures during fiscal year 2008 were $9.1 billion. Preliminary General Fund revenues for fiscal year 2008 totaled $8.45 billion, which is $418 million less than the Department of the Treasury's revised estimate for that period of $8.85 billion. This amount includes $4.4 billion in revenues from individual and corporate income taxes, $1.1 billion from non-resident withholding taxes, $864 million from excise taxes and $911 million of sales tax revenues. The foregoing difference of $650 million between the preliminary General Fund revenues and preliminary actual expenses for fiscal year 2008 was covered by a recovery of approximately $287 million more in federal funds and delaying payments to vendors (carrying them over into the next fiscal year). The federal funds recovery represented reimbursement of amounts advanced by the Commonwealth's Department of Education during fiscal years 2006 and 2007.

Fiscal Year 2009 Projected Revenues and Expenditures. On July 20, 2008, former Governor Anibal Acevedo Vilá signed into law the General Fund budget for fiscal year 2009 of $9.5 billion in expenditures, or approximately $257 million more than budgeted expenditures for fiscal year 2008 of $9.2 billion. The increase in budgeted expenditures over fiscal year 2008 is mainly due to $105 million in increases to University of Puerto Rico, judiciary and municipal increases based on the legislated formulas and salary increases. An additional $41.2 million is budgeted for the State Election Commission. The General Fund revenue projection for fiscal year 2009 is $8.5 billion as compared to preliminary net revenues for fiscal year 2008 of $8.45 billion. The Commonwealth's budgeted expenditures for fiscal year 2009 of $9.5 billion exceed projected revenues of $8.5 billion by approximately $1 billion. In connection with the budget approval and in order to cover the approximately $1 billion difference between approved expenditures and projected revenues, legislation was approved and signed by former Governor Acevedo Vilá authorizing the Commonwealth (i) to sell and or transfer delinquent tax receivables up to $1 billion, and (ii) as an exception to the general prohibition against borrowings to balance the budget, to issue limited special obligations of the Commonwealth payable from and collateralized with tax receivables up to the $1 billion limitation.

Preliminary General Fund revenues for fiscal year 2009 for the period July through November totaled $2,910 million, which is $85 million less than the Department of the Treasury's estimate for that period of $2,995 million. This amount includes $1,547 million in revenues from individual and corporate income taxes, $357 million from non-resident withholding taxes, $331 million from excise taxes, $249 million from sales and use tax and $426 million from other sources.

Incomplete data for December indicates a further decline in the receipt of revenues compared to forecasted amounts. In addition, because of the ongoing credit market crisis, the Commonwealth has delivered, as of December 31, 2008, approximately $241.4 million in collateral to its counterparties on certain interest rate exchange agreements entered into in June 2006, and the collateral posting obligation contained in such agreements may require further deliveries by the Commonwealth. The continuing revenue shortfall and the collateral posting have resulted in the issuance by the Commonwealth of $1 billion Tax Anticipation Bonds, Series 2008A purchased by the Bank on September 9, 2008, October 10, 2008, October 17, 2008, November 26, 2008 and December 1, 2008, the proceeds of which will be used to cover cash flow revenue shortfalls as well as collateral posting requirements of the General Fund. The Tax Anticipation Bonds are secured by a pledge of delinquent tax receivables of the Commonwealth. It is likely that revenues will continue to come in below projections on account of the continuing economic recessions in Puerto Rico and the United States with the result that the Commonwealth's current budget deficit will increase during fiscal year 2009 from that reported above.

Advisory Council. Soon after his election, Governor Fortuño named an Economic and Fiscal Reconstruction Advisory Council (the "Council"), comprised of a 14-member council of professionals from the private sector with experience in the public and private sectors. On December 19, 2008 the Council issued its Preliminary Report on Fiscal Reconstruction (the "Preliminary Report"). One of the findings in the Preliminary Report is a projected cash and structural deficit of approximately $3.2 billion for fiscal year 2009. On that same date the Council also issued its Report on Public-Private Partnerships. In this report, the Council recommends the use of public-private partnerships as an alternative to financing and developing infrastructure projects, operating and managing public assets and offering certain services to the public.

On January 8, 2009, the Council issued its Report on Fiscal Reconstruction of the Commonwealth that addresses the need to eliminate the cash and structural deficit of the Commonwealth of $3.2 billion over a period of four years and stimulate the economy.

Among the proposals the Council recommended are: a two year moratorium on wage and benefit increases included in collective bargaining agreements; a ban on hiring new employees or creating new jobs in the government sector and an elimination of any vacant positions within the government sector; a reduction in temporary employees; a ten percent (10%) reduction in the Legislature's budget; additional taxes for gasoline, cigarettes, alcoholic beverages, and cell phone communications; improved monitoring of income tax and Sales and Use tax collections in order to reduce tax evasion; a moratorium on tax credits awarded to businesses; a five percent (5%) surtax on individuals with adjusted gross income over $100,000 and on corporations, including banks and insurance companies; a review and possible elimination of the current residential property tax exemption; and a review of Commonwealth contributions to the municipalities, among others. Some of these recommendations are permanent and others are temporary.

The Governor and his economic team are currently reviewing the Council's report in an effort to determine which measures, if any, will be implemented. As part of this review, the Governor has submitted the report to the Planning Board and has asked it to conduct a macroeconomic study regarding the impact the different actions proposed by the Council may have on the Island's economy. Once the Governor decides which measures will be implemented, the Governor will submit legislation for those measures which would require the enactment of legislation by the Legislative Assembly.

Executive Order and Legislative Action. On the same date that the Council issued the abovementioned report, Governor Fortuño issued an Executive Order declaring "a state of fiscal emergency" in the Commonwealth. Pursuant to the Executive Order, government agencies are ordered to reduce their operational costs by an amount equal to ten percent (10%) of half of their total budgeted expenses for fiscal year 2009, eliminate thirty percent (30%) of authorized government trust positions and a hiring freeze of government employees. The Executive Order also prohibits the creation of new government employment positions.

On January 12, 2009, Governor Fortuño filed and on January 13, 2009 the Legislative Assembly approved four bills that would allow the implementation of certain financial measures. The enactment of this package of bills would: (i) transfer an additional one percent (1%) to the Puerto Rico Sales Tax Financing Corporation ("COFINA" by its Spanish acronym) in order to issue additional bonds for the purposes described below, (ii) allow the Puerto Rico Infrastructure Financing Authority ("PRIFA") to dispose of the securities held in the Corpus Account of the Infrastructure Development Fund, (iii) temporarily suspend the prohibition regarding the use of loans or financing mechanisms to cover operating expenses or General Fund budgetary deficits, and (iv) temporarily increase the amount the Bank can lend a government entity payable from future legislative appropriations, subject to the approval of the Governor and the Director of the Office of Budget and Management.

The proceeds from the COFINA bond issue would be used to repay some of the remaining amounts of the Commonwealth's extraconstitutional debt and, due to the suspension mentioned in (iii) above, pay certain amounts owed to the Bank by the Secretary of the Treasury, finance the Commonwealth's operating expenses, pay government debts with suppliers and cover any budgetary deficits. The COFINA bond issue is also expected to fund an economic stimulus package geared towards, among others, providing taxpayer relief, stimulus to businesses and industries, and funding worker retraining and assistance programs. Similarly, the proceeds raised by PRIFA would be used to cover a portion of the Commonwealth's operating expenses and make a capital contribution to the Bank, but only after redeeming PRIFA's outstanding bonds and making a deposit to the Corpus Account that would be invested in a guaranteed investment contract with the Bank.

Planning Board Revised Economic Growth Estimates. On February 21, 2008, the Planning Board, as part of its final review of fiscal year 2007 economic statistics indicated that it expected to reduce the 2007 economic growth rate to -1.8% from -1.4% and that the forecast for fiscal years 2008 and 2009 will be lowered on account of the projected length of the current recession. The factors that influenced the Board's fiscal year 2007 indication included private investment (especially in the construction sector) and government investment. Price increases in certain key areas such as energy and raw materials contributed to the Board's numbers as well.

During March 2008, the Planning Board confirmed its reduction of the fiscal year 2007 economic growth rate to -1.8% from -1.4%, and projected that the economic growth rate for the fiscal year ending June 30, 2008 will be -2.1% and the economic growth rate for the fiscal year ending June 30, 2009 will be 2.1%. It is likely, given the continuing economic weakness in certain key economic variables, that the Planning Board will lower its prediction of economic growth for the fiscal year ending June 30, 2009. Lower economic growth could lead to lower revenues and an increase in the deficit during such fiscal year.

Additional Commonwealth Debt. On September 18, 2008, the Commonwealth issued $250,000,000 of Public Improvement Bonds of 2008, Series A (the "2008 GO Bonds") under the provisions of Act No. 243 of the Legislature of Puerto Rico (the "Legislature"), approved August 9, 2008 (the "GO Act"), pursuant to a resolution authorizing the issuance of the 2008 GO Bonds, adopted in accordance with the GO Act by the Secretary of the Treasury of Puerto Rico and approved by the Governor of Puerto Rico on September 5, 2008.

INVESTMENT CONSIDERATIONS

Prospective purchasers should consider carefully the following factors and other information in this Official Statement before deciding to invest in the 2009 Series A Notes. The investment considerations discussed below should be considered in evaluating the ability of the Bank to make payments in amounts sufficient to provide for payment of the principal of and interest on the 2009 Series A Notes. This discussion of the risk factors involved in purchasing and owning the 2009 Series A Notes is not, and is not intended to be, exhaustive.

General

The 2009 Series A Notes are not an obligation of the Commonwealth or any of its instrumentalities or political subdivisions, other than the Bank. The 2009 Series A Notes will be solely the Bank's obligations, and no other entity will have any obligation, contingent or otherwise, to make any payments with respect to the 2009 Series A Notes. The Bank does not have any taxing power.

The ability of the Bank to make payments in amounts sufficient to provide for payment of the principal of and premium, if any, and interest on the 2009 Series A Notes could be adversely affected by the occurrence of certain events, including, without limitation, the events and circumstances described below.

Early Redemption

The Bank may choose to redeem some or all of the 2009 Series A Notes, at times when prevailing interest rates are lower than when the 2009 Series A Notes were issued. If this happens, Noteholders may not be able to reinvest the proceeds received in a comparable security at an effective interest rate as high as that of the 2009 Series A Notes.

Enforceability of Remedies

The remedies available to the owners of the 2009 Series A Notes upon an event of default under the Indenture or other documents described herein are in many respects dependent upon regulatory and judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies specified by the Indenture and the various related documents may not be applicable, readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the 2009 Series A Notes will be qualified as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by principles of equity.

The market value of the 2009 Series A Notes may be affected by a negative change in the rating of the 2009 Series A Notes

The rating initially assigned to the 2009 Series A Notes may be lowered or withdrawn. Such rating changes could adversely affect the value of and market for the 2009 Series A Notes.

Possible impact of the Commonwealth's fiscal imbalance on the finances of the Bank

On January 8, 2009, Governor Luis G. Fortuño issued an Executive Order declaring "a state of fiscal emergency" in the Commonwealth due to the budget deficit which exceeds $3 billion. The Executive Order states that the immediate effect of the current budget deficit is that the government will not have sufficient revenues to cover expenses related to essential government services.

In order to cover the costs of rendering such essential government services during this time, the Bank might have to continue lending money to the central government, public corporations and municipalities. Loans to the central government which are payable from uncollected taxes and from annual appropriations are affected by the Commonwealth's current fiscal imbalance. If the Commonwealth has insufficient funds to pay all approved appropriations, the available resources of the Commonwealth will be used to pay public debt backed by the full faith and credit of the Commonwealth before being used for any other purpose, including paying the loans to the Bank. This could negatively affect the Bank's financial condition and liquidity.

The Bank may have to finance capital improvement programs for the Commonwealth

The Commonwealth's access to funding through the bond market to finance its capital improvement programs and those of its instrumentalities and if necessary, to help close its General Fund budget deficit, may be adversely affected if its credit rating is reduced. If this happens, the Bank may be asked to provide financing for these capital improvement programs or for working capital needs. The Bank is not required by law to provide such financing. Under a law enacted in 2001, the Bank is prohibited from making loans to any governmental entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislative Assembly, with certain limited exceptions, including if such loan is needed to cover the entities' debt service. It is also the Bank's current policy not to provide financing to any instrumentality of the Commonwealth (other than the central government) unless the Bank is satisfied that it has the ability to repay such financing from its own revenues. The Bank, however, has provided this type of financing in the past to the Aqueduct and Sewer Authority and other government entities that have not had sufficient independent sources of revenue. Any material increase in the amount of loans to the public sector may have an adverse effect on the Bank's financial condition.

S&P may downgrade the credit rating of the Bank

On December 13, 2007, Standard & Poors, a division of The McGraw-Hill Companies, Inc. ("S&P") raised Government Development Bank's long-term credit rating to "BBB" and revised its "negative" outlook to "stable." S&P's report stated that the higher rating reflected, among other things, the Bank's (i) improved liquidity profile, (ii) policy of limiting loans made directly to the government and (iii) effort to keep its loan portfolio below 50% of total assets.

From July 2008 to December 2008, the Bank has made loans to the Commonwealth, its agencies and instrumentalities and, at December 31, 2008, the Bank's loan portfolio represented more than 50% of its total assets. This has resulted in a significant reduction of the Bank's liquidity. However, no further action has been taken by S&P. The volume of these loans may increase during fiscal year 2009 on account of the current budget deficit. To the extent the Bank continues to be in non compliance with these parameters, S&P may take rating action which could adversely affect the Bank's credit rating.

A downgrade of the Bank's credit rating could affect its ability to access sources of funding

The Bank's ability to raise additional debt in the capital markets could be affected by any downgrade of its credit rating, whether or not on account of any downgrade of the Commonwealth's credit rating. Although the Bank believes that it has adequate alternate sources of funds, such as deposits of government instrumentalities currently held by private banks, no assurance can be given that the Bank would in fact be able to access these alternate sources of funds.

Effects of changes in interest rates

Increases in interest rates are the primary market risk affecting the Bank. Interest rates are highly sensitive to many factors, such as governmental monetary policies and domestic and international economic and political conditions that are beyond the control of the Bank.

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

- The net interest income; and
- The value of holdings of securities.

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

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

Economic conditions in Puerto Rico

As per the Bank's charter, all of the Bank's business and government type activities are conducted in Puerto Rico. Thus, the Bank is at risk from adverse economic, political or business developments and natural hazards that affect Puerto Rico. Beginning in 2005 and continuing into 2009, the Puerto Rico economy has been deteriorating due, in part, to reductions in private investment and the central Commonwealth's fiscal imbalance.

The decline in Puerto Rico's economy has had an adverse effect in the credit quality of the Commonwealth and its instrumentalities and public corporations. If, as expected, the economy continues to deteriorate, loan delinquency rates may increase and may cause a decrease in the credit quality of the Bank's loan portfolio.

Absence of secondary market for the 2009 Series A Notes

There is currently no secondary market for the 2009 Series A Notes, and there can be no assurance that a secondary market will develop, or if it does develop, that it will provide Noteholders with liquidity for their investment or that it will continue for the life of the 2009 Series A Notes. The Underwriters do not have a legal obligation to maintain a market for the 2009 Series A Notes.

USE OF PROCEEDS

The Bank will use the proceeds from the sale of the 2009 Series A Notes for general corporate purposes, including, but not limited to, increasing its investment portfolio and making loans to, and purchasing obligations of, the Commonwealth and its public corporations.

THE 2009 SERIES A NOTES

General

The 2009 Series A Notes will be dated their date of issuance and will mature (subject to prior redemption as described below) on such dates and in such amounts as set forth on the inside cover page of this Official Statement. The 2009 Series A Notes will be issued as fully registered notes without coupons, in denominations of $5,000 principal amount and integral multiples of $1,000 in excess thereof.

Interest on the 2009 Series A Notes will accrue from their date of issuance at the rates set forth on the inside cover page of this Official Statement and will be paid monthly on the first day of each month, commencing on March 1, 2009, until maturity or prior redemption. Interest on the 2009 Series A Notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

Book-Entry Only System

The following information concerning The Depository Trust Company ("DTC"), New York, New York and DTC's book-entry system has been obtained from DTC. Neither the Bank nor the Underwriters take any responsibility for the accuracy thereof.

DTC will act as securities depository for the 2009 Series A Notes. The 2009 Series A Notes will be issued in fully-registered form and registered in the name of Cede & Co. (DTC's partnership nominee) or such other nominee as may be requested by an authorized representative of DTC.

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

Purchases of the 2009 Series A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series A Notes on DTC's records. The ownership interest of each actual purchaser of a 2009 Series A Note ("Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 Series A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive definitive 2009 Series A Notes, except in the event that use of the book-entry system for the 2009 Series A Notes is discontinued as described below.

To facilitate subsequent transfers, all 2009 Series A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. The deposit of 2009 Series A Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2009 Series A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 Series A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Series A Notes, such as redemptions, tenders, defaults, and proposed amendments to the note documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the 2009 Series A Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the 2009 Series A Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2009 Series A Notes unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2009 Series A Notes are credited on such record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and interest payments on the 2009 Series A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bank, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, its nominee, or the Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bank, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2009 Series A Notes at any time by giving reasonable notice to the Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, definitive 2009 Series A Notes will be printed and delivered.

The Bank may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor depository). In that event, definitive 2009 Series A Notes will be printed and delivered.

Payments and Transfers

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

For every transfer and exchange of the 2009 Series A Notes, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee or other charge that may be imposed in relation thereto.

Discontinuance of the Book-Entry Only System

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the 2009 Series A Notes shall be payable in lawful money of the United States of America at the principal office of the Trustee in San Juan, Puerto Rico. Interest on the 2009 Series A Notes will be payable by check mailed to the respective addresses of the registered owners determined as of the 15th day of the month preceding the interest payment date as shown on the registration books of the Bank maintained by the Trustee. The 2009 Series A Notes will be issued only as registered notes without coupons in denominations of $5,000 and integral multiples of $1,000 in excess thereof. The transfer of the 2009 Series A Notes will be registrable and they may be exchanged at the corporate trust office of the Trustee in San Juan, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

Optional Redemption

The 2009 Series A 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 the Bank shall direct), at a price equal to the principal amount to be redeemed plus accrued interest to the date of redemption, without premium, on February 1, 2010 and on a monthly basis thereafter on each interest payment date.

Notice and Effect of Redemption; Partial Redemption

Any redemption of the 2009 Series A Notes, either in whole or in part, shall be made upon at least 30 day's prior notice by mail to DTC or, if the book-entry only system described above has been discontinued, by first-class mail, postage prepaid, to all registered owners of the 2009 Series A Notes to be redeemed in the manner and under the terms and conditions provided in the Indenture. On the date designated for redemption, notice having been given as provided in the Indenture and moneys for payment of the principal of and accrued interest on the 2009 Series A Notes or portions thereof so called for redemption being held by the Trustee, interest on the 2009 Series A Notes or portions thereof so called for redemption shall cease to accrue.

Each notice of redemption shall contain, among other things, a description of the particular 2009 Series A Notes (or portions thereof) being called for redemption, the redemption date and price and the address at which such 2009 Series A Notes are to be surrendered for payment of the redemption price. Any defect in such notice or the failure so to mail any such notice to DTC in respect of, or the registered owner of, any 2009 Series A Note will not affect the validity of the proceedings for the redemption of any other 2009 Series A Note.

If less than all the 2009 Series A Notes of any maturity are called for redemption, the particular 2009 Series A Notes so called for redemption shall be selected by the Trustee by such method as it deems fair and appropriate, except that so long as the book-entry only system shall remain in effect, in the event of any such partial redemption, DTC shall reduce the credit balances of the applicable DTC Participants in respect of the 2009 Series A Notes and such DTC Participants shall in turn select those Beneficial Owners whose ownership interests are to be extinguished by such partial redemption, each by such method as DTC or such DTC Participant, as the case may be, in its sole discretion, deems fair and appropriate.

Notes are Unsecured Obligations of Government Development Bank

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

Availability of Assets of Government Development Bank's Subsidiaries for Payment of the Notes

Because the Notes are issued by Government Development Bank and are not guaranteed by the Bank's subsidiaries, holders of the Notes will not have recourse against the Bank's subsidiaries. As of June 30, 2008, approximately \$2.0 billion out of Government Development Bank's consolidated total assets of \$12.32 billion were held by the Bank's subsidiaries and are, therefore, unavailable for the payment of debt service on the Notes.

THE BANK

Organization and Powers

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

The Bank is generally exempt from Commonwealth taxation. It is required to have an annual examination and audit by certified public accountants of national reputation selected by its Board of Directors (the "Board of Directors"). As in the case of all Commonwealth banks, it is subject to examination and supervision by the Commissioner of Financial Institutions of the Commonwealth. The Comptroller of the Commonwealth, who is responsible to the Legislature, usually reviews the operations of Government Development Bank every two to three years.

Principal Functions

The Bank's principal function is to act as fiscal agent, financial advisor and lender to the Commonwealth, its agencies, public corporations and municipalities. In its role as fiscal agent, it acts as advisor to the Commonwealth and its instrumentalities in connection with all their borrowings, and all such borrowings are subject to prior approval by the Bank. The Bank receives fees for rendering such services.

The Bank lends to, and purchases and guarantees certain obligations of, the Commonwealth and its agencies, public corporations and municipalities. It provides interim financing to these entities in anticipation of their refinancing such indebtedness in the bond market and also provides longer term financing to such entities. In fiscal years 2008, 2007, and 2006, the Bank disbursed individual lines of credit and other financing facilities to the public sector in aggregate amounts of approximately $2.8 billion, $1.1 billion, and $5.5 billion, respectively. For a breakdown of the outstanding principal amount of certain of the Bank's loans to the public sector, see the table under "Loans to the Commonwealth, its Public Corporations and Municipalities."

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

Board of Directors and Management

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

Member	Occupation	Expiration Date
Carlos M. García, Chairman	Banker	September 23, 2010
Alejandro Ballester	Businessman	September 23, 2012
Marcos Rodríguez-Ema	Attorney	September 23, 2011

The Board of Directors appoints a President who is the chief executive officer of the Bank and is responsible for its day to day operations. The other four members of the Board of Directors of the Bank are expected to be appointed by the Governor during the next two weeks.

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

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

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

William Lockwood-Benet was appointed Executive Vice President and Director of the Bank's Fiscal Agent functions on January 26, 2009. Before being named Executive Vice President of the Bank, since 1993, Mr. Lockwood served as Founder and CEO of Lockwood Financial Advisors, working on private sector development, economic policy innovation, capital markets, corporate lending, asset management strategy, private infrastructure and global climate change. In 2005, Mr. Lockwood served as President of the Bank. In 2000, he founded Generans Bioventures, an interdisciplinary biosciences strategy group. Mr. Lockwood also served as Vice President and Assistant to three Bank Presidents and investor relations officer at the Bank's New York Office from 1989 to 1993. He started his government training at the Bank in 1981, and then worked at the Planning Board, Industrial Development Company, the Governor's Economic Advisory Council and Chief of Staff Office, Department of State, and Economic Development Bank until 1989. Mr. Lockwood is a member of Friends for Public Education, former Chairman and Founding Treasurer of Grupo Guayacán and Director of the Center for the New Economy. He is a graduate of Brown University, the University of Sussex and Massachusetts Institute of Technology Sloan Business School and Kellogg Business School executive programs.

Jesús F. Méndez was appointed Executive Vice President and Director of Administration, Operations and Controllership on January 7, 2009. Before being named Executive Vice President of the Bank, from 2005 to 2008, Mr. Méndez held the position of President and Chief Executive Officer of Tresamici Management, Inc, a closely held corporation dedicated to the administration of assisted living facilities, of which he holds a one-third ownership participation. From 1996 to 2004 he held several senior management positions within Banco Santander S.A. operating entities in Puerto Rico including, President of Santander Asset Management and First Senior Vice President and Trust Officer of Banco Santander Puerto Rico and Managing Director of Santander Securities Corporation. Prior to joining Santander Securities, Mr.

Méndez served as Chief Financial Officer and Managing Director of BP Capital Markets. He also worked for Credit Suisse First Boston (Puerto Rico, Inc.) as Vice President and for Deloitte and Touche as Senior Auditor. In addition, Mr. Méndez also held the position of Assistant Bank Examiner at the Federal Deposit Insurance Corporation in New York City. Mr. Méndez has a Bachelor's Degree in Business Administration from the University of Puerto Rico and is a Certified Public Accountant.

María de Lourdes Rodríguez, Esq. was appointed Acting General Counsel on January 7, 2009. Ms. Rodríguez has been Assistant Director of the Legal Division from July 2007 to January 2009 and Executive Vice President and Chief Legal Counsel of the Bank from October 2003 to July 2007. Ms. Rodríguez has over 20 years of experience in general corporate law, including representation of financial institutions in commercial lending transactions, real estate financings and refinancing, merger and acquisitions, and environmental law. Ms. Rodríguez is a graduate of The Catholic University of America, Washington, D.C., and the University of Puerto Rico School of Law.

As of June 30, 2008, the Bank, its subsidiaries and affiliates had approximately 450 employees, 177 of which were members of the Union of Employees of Government Development Bank for Puerto Rico.

The main offices of Government Development Bank are located at Roberto Sánchez Vilella Government Center, De Diego Avenue, P.O. Box 42001, San Juan, Puerto Rico 00940, and its telephone number is (787) 722-2525. Government Development Bank also maintains an office at 666 Fifth Avenue, 15th Floor, New York, NY 10103-1599, telephone (212) 422-6420.

Government Development Bank Subsidiaries

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

Housing Finance Authority. Housing Finance Authority (formerly known as Housing Financing Corporation) was created to provide needed rental housing units and stimulate the construction industry under federally subsidized programs. Effective February 8, 2002, Housing Financing Corporation became the Housing Finance Authority and the Housing Bank and Finance Agency was dissolved and its powers transferred to the Housing Finance Authority. Housing Finance Authority provides financing for rental housing units, stimulates the construction industry under federally subsidized programs and provides interim financing for low-income housing projects and single-family homeownership programs. It is also engaged in insuring and servicing mortgages originated by the former Housing Bank and Finance Agency. As of June 30, 2008, the Housing Finance Authority's total outstanding loans to the private sector for development of housing projects targeted to low and moderate income families were $110.5 million. The Housing Finance Authority's mortgage loans to low and moderate income homeowners represented an additional $97.8 million as of the same date.

Housing Finance Authority has outstanding tax-exempt revenue bonds the proceeds of which were loaned to the Puerto Rico Public Housing Administration to finance improvements to various housing projects in the Commonwealth. Such bonds are limited obligations of the Housing Finance Authority, payable solely from revenues collected from such housing projects, with certain exceptions. As of June 30, 2008, $597 million of these bonds were outstanding.

As of June 30, 2008, the Housing Finance Authority also had outstanding $677.1 million of bonds issued to fund certain payments under its mortgage subsidy programs for low and moderate income families.

As of June 30, 2008, the Housing Finance Authority had total notes and bonds outstanding of $1.4 billion (including $112.1 million of debt outstanding under Government Development Bank lines of credit and excluding limited obligations) and total unrestricted net assets of $279 million.

Tourism Development Fund. The Tourism Development Fund was created in November 1993 to promote Puerto Rico's hotel and tourism industry by making available direct loans and guarantees to secure the payment of private financing used for new hotel development projects. The Tourism Development Fund is also authorized to make capital investments in tourism related projects. As of June 30, 2008, the Tourism Development Fund had outstanding direct loans in an aggregate principal amount of $271.5 million and guarantees, letters of credit and participation agreements issued in the outstanding amount of $154.8 million to finance several hotels and tourism-related projects.

The Tourism Development Fund has made payments under its guarantees and letters of credit in the aggregate amount of approximately $313.4 million with respect to several projects, including $282 million disbursed to pay in full the bonds issued to finance three projects, which bonds had been declared due and payable at the direction of the Tourism Development Fund due to the failure of the borrowers of such projects to comply with their obligations under the related reimbursement agreements. Of the total amount disbursed, the Tourism Development Fund has been able to recover approximately $199.7 million from the borrowers. After taking these payments and all related recoveries into consideration, the unrestricted net assets of the Tourism Development Fund as of June 30, 2008, were approximately $149.9 million, and its allowances for losses on loans and guarantees and letters of credit were approximately $6.7 million.

Capital Fund. Government Development Bank for Puerto Rico's Capital Fund (the "Capital Fund") was created in November 1992 for the purpose of investing and trading in debt obligations and publicly traded shares of domestic and foreign corporations separate from Government Development Bank's general investment operations. As of June 30, 2008, the Capital Fund had assets of $82.8 million, consisting principally of investments in equity indexed funds and corporate debt.

Development Fund. The Puerto Rico Development Fund (the "Development Fund") was established in April 1977 to provide an alternate source of financing to private enterprises in Puerto Rico that have difficulties in obtaining financing from traditional sources. The Development Fund is also authorized to guarantee obligations of these enterprises and invest in their equity securities. As of June 30, 2008, the Development Fund had assets of $43.7 million.

Public Finance Corporation. Puerto Rico Public Finance Corporation ("Public Finance Corporation") was established in November 1984 to provide agencies and instrumentalities of the Commonwealth with alternate means of meeting their financing requirements. The trustees of certain no-commitment bonds issued by the Public Finance Corporation currently hold notes payable by the Commonwealth, the Maritime Shipping Authority, the Office for the Improvement of Public Schools, the Department of Health, and the Aqueduct and Sewer Authority, among others. All such bonds are limited non-recourse obligations of Public Finance Corporation payable solely from Commonwealth appropriations made to pay the notes held by the trustees. As of June 30, 2008, Public Finance Corporation had $1.7 billion aggregate principal amount of no-commitment bonds outstanding.

General Financial Information

The tables that follow provide financial information of Government Development Bank. Except as otherwise specified, such financial information is presented on a consolidated basis. The financial information is presented in accordance with the requirements of Governmental Accounting Standards Board Statement No. 34 ("GASB 34"). Financial information as of and for the years ended June 30, 2008, 2007 and 2006 was derived from Government Development Bank's audited financial statements. This information should be read together with Government Development Bank's financial statements as of and for the year ended June 30, 2008, attached as *Appendix I* to this Official Statement. See "Incorporation of Certain Commonwealth Financial Information" under *Introductory Statement.*

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

Consolidated Schedule of Net Assets

Set forth below is the consolidated Schedule of Net Assets of Government Development Bank and its subsidiaries as of June 30, 2008, 2007 and 2006, which has been derived from the Bank's audited financial statements. The consolidated Schedule of Net Assets provides information on the assets and liabilities of Government Development Bank and its subsidiaries, and includes both governmental and business-type activities.

	As of June 30,		
	2008	2007	2006
Assets:			
Cash and due from banks	$ 60,212,101	$ 5,854,764	$ 3,066,194
Federal funds sold	316,620,000	945,500,000	1,935,000,000
Deposits placed with banks	1,533,888,304	1,870,443,074	541,449,283
Investments and investment contracts	2,635,014,277	794,926,883	821,944,820
Loans receivable, net	5,454,425,371	6,231,555,111	7,268,713,058
Accrued interest and other receivables	259,623,379	469,701,649	292,392,245
Restricted Assets:			
Cash and due from banks	26,729,908	29,120,531	31,102,178
Deposits placed with banks	82,105,513	53,634,790	21,572,524
Due from federal government	20,936,674	18,823,323	18,043,192
Investments and investment contracts	1,770,847,186	1,340,265,733	1,620,774,927
Loans receivable, net	8,993,589	10,206,163	11,748,258
Interest and other receivables	6,079,549	4,111,071	12,641,249
Real estate available for sale	1,980,493	2,026,448	3,641,424
Other assets	8,211,544	6,363,700	6,629,621
Real estate available for sale	58,117,974	66,688,439	70,897,683
Capital assets	27,396,841	24,525,247	27,859,609
Other assets	44,811,983	53,337,416	59,336,430
Total assets	12,315,994,686	11,927,084,342	12,746,812,695
Liabilities:			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand	2,720,148,159	2,013,882,933	2,046,780,528
Certificates of deposit	4,283,385,449	3,444,110,622	3,736,497,331
Securities sold under agreements to repurchase	687,200,000	455,000,000	515,000,000
Commercial paper	500,000	575,861,000	985,131,418
Certificates of indebtedness	11,800,000	11,800,000	54,884,000
Notes payable, due within one year	93,355,224	117,019,505	59,012,897
Accrued interest payable	24,955,038	45,384,277	51,143,568
Due to Commonwealth of Puerto Rico	-	1,048,626	-
Accounts payable and accrued liabilities	64,943,966	82,183,379	112,958,744
Allowance for losses on guarantees and letters of credit	3,113,395	2,493,343	2,524,246
Participation agreement payable	26,000,000	26,000,000	26,000,000
Bonds payable due in more than one year	267,000,000	267,000,000	267,000,000
Notes payable due in more than one year	600,436,214	1,571,226,982	1,670,289,122
Liabilities payable from restricted assets:			
Accrued interest payable	3,219,730	2,926,535	4,499,270
Accounts payable and accrued liabilities	20,957,005	23,647,675	789,783
Bonds payable:			
Due in one year	63,447,231	70,697,619	94,111,000
Due in more than one year	1,086,809,893	945,561,556	1,023,753,916
Total liabilities	9,957,271,304	9,655,844,052	10,650,375,823
Net assets:			
Invested in capital assets	27,396,841	24,525,247	27,859,609
Restricted for:			
Debt service	30,522,788	25,503,670	55,682,108
Affordable housing programs	259,979,021	225,287,284	210,378,231
Mortgage loan insurance	54,385,644	49,134,920	43,841,290
Unrestricted assets	1,986,439,088	1,946,789,169	1,758,675,634
Total net assets	$ 2,358,723,382	$ 2,271,240,290	$ 2,096,436,872

Schedule of Balance Sheet Information – Government Development Bank Operating Fund

Set forth below is the Schedule of Balance Sheet Information of Government Development Bank as of June 30, 2008, 2007 and 2006, without including its subsidiaries. The information for fiscal years 2008, 2007 and 2006 is derived from the column titled "GDB Operating Fund" included in the balance sheet for the Enterprise Funds set forth in Government Development Bank's audited consolidated financial statements.

	As of June 30,		
	2008	**2007**	**2006**
ASSETS			
Current assets:			
Cash and due from banks	$ 59,818,358	$ 5,750,881	$ 2,372,859
Federal funds sold	316,620,000	945,500,000	1,935,000,000
Deposits placed with banks	1,505,000,000	1,820,057,870	503,557,870
Investments and investment contracts	2,007,599,088	166,813,700	384,857,930
Loans receivable–net	802,644,635	2,455,109,277	1,147,182,214
Accrued interest receivable	258,507,954	468,515,173	303,064,910
Other current receivables	21,794,518	25,980,933	26,409,979
Other current assets	1,017,745	685,851	725,202
Due from governmental funds	112,101,375	108,912,119	171,366,787
Restricted:			
Investments and investment contracts	34,996,500	49,787,500	73,310,294
Total current assets	5,120,100,173	6,047,113,304	4,547,848,045
Noncurrent assets:			
Restricted:			
Investments and investment contracts	705,854,918	442,816,442	521,063,232
Investments and investment contracts	583,317,273	552,580,182	382,188,993
Loans receivable–net	4,399,777,543	3,553,541,364	6,227,619,428
Real estate available for sale	56,323,019	66,022,902	70,023,932
Capital assets	22,850,528	22,026,095	25,072,140
Other assets	7,565,617	15,142,636	16,456,552
Total noncurrent assets	5,775,688,898	4,652,129,621	7,242,424,277
Total assets	$10,895,789,071	$10,699,242,925	$11,790,272,322

LIABILITIES			
Current Liabilities:			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand	$ 2,780,562,925	$ 2,073,872,474	$ 2,105,656,182
Certificates of deposit	4,578,483,723	3,682,738,483	4,300,316,146
Certificates of indebtedness	-	-	47,384,000
Securities sold under agreements to repurchase	207,200,000	-	-
Commercial paper	500,000	575,861,000	985,131,418
Accrued interest payable	36,027,309	56,205,078	60,340,634
Accounts payable and accrued liabilities	38,772,134	22,727,701	24,427,784
Due to governmental funds	24,766,706	79,508,206	55,026,538
Due to Commonwealth of Puerto Rico	-	1,013,951	-
Notes payable	93,204,456	109,140,710	41,427,559
Total current liabilities	7,759,517,253	6,601,067,603	7,619,710,261
Noncurrent liabilities:			
Certificates of deposit, principally from the Commonwealth of Puerto Rico and its public entities	321,382,747	391,413,812	378,224,204
Certificates of indebtedness	11,800,000	11,800,000	7,500,000
Securities sold under agreements to repurchase	480,000,000	455,000,000	515,000,000
Allowance for losses on guarantees and letters of credit	1,000,000	1,000,000	1,000,000
Accounts payable and accrued liabilities	2,451,157	29,703,459	40,718,618
Bonds and notes payable	862,624,977	1,828,066,950	1,927,090,586
Total noncurrent liabilities	1,679,258,881	2,716,984,221	2,869,533,408
Total liabilities	9,438,776,134	9,318,051,824	10,489,243,669
NET ASSETS			
Invested in capital assets	22,850,528	22,026,095	25,072,140
Unrestricted	1,434,162,409	1,359,165,006	1,275,956,513
Total net assets	1,457,012,937	1,381,191,101	1,301,028,653
Total liabilities and net assets	$10,895,789,071	$10,699,242,925	$11,790,272,322

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

Set forth below is the consolidated Schedule of Revenues, Expenses and Changes in Net Assets – Enterprise Funds for Government Development Bank and its subsidiaries for each of the fiscal years ended June 30, 2008, 2007 and 2006, which was derived from the Bank's audited financial statements. The consolidated Schedule of Revenues, Expenses and Changes in Net Assets for the Enterprise Funds provides in more detail the information provided in the Statement of Activities (which is included in Government Development Bank's basic financial statements incorporated by reference to this Official Statement) with respect to the business-type activities of Government Development Bank and its subsidiaries.

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	For the year ended June 30,		
	2008	2007	2006
OPERATING REVENUES			
Investment income			
Interest income on federal funds sold and securities purchased under agreements to resell	$ 47,676,634	$ 75,433,805	$ 42,525,527
Interest income on deposits placed with banks	112,401,952	71,550,858	34,426,868
Interest and dividend income on investments and investment contracts	128,377,998	132,842,285	126,495,655
Net increase (decrease) in fair value of investments	(1,168,293)	31,031,723	(12,689,413)
Total investment income	287,288,291	310,858,671	190,758,637
Interest income on loans receivable			
Public sector	261,387,745	391,158,492	323,161,774
Private sector	27,446,107	30,283,719	23,947,643
Total interest income on loans receivable	288,833,852	421,442,211	347,109,417
Total investment income and interest income on loans receivable	576,122,143	732,300,882	537,868,054
Noninterest income			
Fiscal agency fees	20,488,024	8,977,679	8,423,908
Commitment, guarantee and other service fees	14,006,195	13,545,871	15,162,897
Mortgage loan insurance premiums	3,052,525	2,694,332	2,759,875
Gain (loss) on sale of foreclosed real estate available for sale	4,528,663	(37,735)	4,359,584
Gain on sale of loans	24,776	741,316	1,922,339
Other income	8,088,190	4,752,973	9,152,055
Total noninterest income	50,188,373	30,674,436	41,780,658
Total operating revenues	626,310,516	762,975,318	579,648,712
OPERATING EXPENSES			
Provision (credit) for loan losses	2,093,926	(5,364,468)	5,175,198
Interest expense:			
Deposits	229,712,412	302,397,197	228,595,905
Securities sold under agreements to repurchase	23,917,723	22,618,003	20,166,695
Commercial paper	10,678,317	20,899,500	40,146,063
Certificates of indebtedness	487,903	1,278,083	8,522,795
Bonds and notes payable	167,500,716	203,774,515	119,584,382
Total interest expense	432,297,071	550,967,298	417,015,840
Noninterest expenses			
Salaries and fringe benefits	38,462,533	37,281,743	35,561,081
Depreciation and amortization	2,268,646	2,140,736	3,991,802
Occupancy and equipment costs	5,587,524	4,916,789	3,553,593
Legal and professional fees	5,697,999	5,880,165	6,533,817
Office and administrative	1,168,730	910,660	1,568,445
Subsidy and trustee fees	391,140	340,403	350,267
Provision (credit) for amount due from Puerto Rico Department of Housing	227,993	(15,037,672)	15,631,550
Provision (credit) for losses on guarantees and letters of credit	1,049,849	(13,548)	(16,456,084)
Provision (credit) for mortgage loan insurance	-	392,535	(1,161,748)
Net loss on derivatives	-	-	2,669,043
Provision for doubtful accounts receivable	-	17,890,635	-
Other	(1,407,324)	24,202,139	9,711,490
Total noninterest expenses	53,447,090	78,904,585	61,953,256
Total operating expenses	487,838,087	624,507,415	484,144,294
OPERATING INCOME	138,472,429	138,467,903	95,504,418
NONOPERATING EXPENSES			
Contributions to Cooperative Development Investment Fund and other	(4,383,699)	(4,207,279)	(4,894,896)
Total nonoperating expenses	(4,383,699)	(4,207,279)	(4,894,896)
INCOME BEFORE TRANSFERS AND SPECIAL ITEMS	134,088,730	134,260,624	90,609,522
TRANSFERS IN	27,597,448	131,327,636	25,928,610
TRANSFERS OUT	(23,362,595)	(158,772,208)	(38,128,993)
SPECIAL ITEMS			
Reimbursement of net guaranty disbursements from Commonwealth of Puerto Rico	-	-	21,497,903
Early retirement program	(40,242,716)	-	-
Income from sponsored housing programs	-	-	18,039,373
Net loss on in-substance defeasance bonds payable	-	-	(3,058,086)
CHANGE IN NET ASSETS	98,080,867	106,816,052	114,888,329
NET ASSETS – Beginning of year	2,177,544,966	2,070,728,914	1,955,840,585
NET ASSETS – End of year	$2,275,625,833	$2,177,544,966	$2,070,728,914

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

Set forth below is the Schedule of Revenues, Expenses and Changes in Net Assets –Government Development Bank Operating Fund for each of the fiscal years ended June 30, 2008, 2007 and 2006, without including its subsidiaries. The Schedule of Revenues, Expenses and Changes in Net Assets for Government Development Bank's Operating Fund provides in more detail information with respect to the business-type activities of Government Development Bank as a stand alone entity (without including its subsidiaries). The information set forth in the table below for fiscal years 2008, 2007 and 2006 is derived from the column titled "GDB Operating Fund" included in the Statement of Revenues, Expenses and Changes in Net Assets – Enterprise Funds set forth in Government Development Bank's fiscal year 2008, 2007 and 2006 audited consolidated financial statements.

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	For the year ended June 30,		
	2008	2007	2006
OPERATING REVENUES			
Investment income			
Interest income on federal funds sold and securities purchased under agreements to resell	$47,676,364	$ 75,433,805	$ 40,884,264
Interest income on deposits placed with banks	80,310,347	35,803,225	7,886,066
Interest and dividend income on investments and investment contracts	66,781,549	67,093,643	57,895,893
Net increase (decrease) in fair value of investments	4,202,069	15,790,246	(1,560,517)
Total investment income	198,970,599	194,120,919	105,105,706
Interest income on loans receivable			
Public sector	254,192,208	371,604,648	323,161,774
Private sector	-	1,786	1,070,594
Total interest income on loans receivables	254,192,208	371,606,434	324,232,368
Total investment income and interest income on loans receivable	453,162,807	565,727,353	429,338,074
Noninterest income			
Fiscal agency fees	20,210,134	8,810,472	8,145,123
Commitment, guarantee and other service fees	4,811,842	3,437,098	3,620,416
Net gain on sale of real estate available for sale	4,296,557	-	-
Other income	6,440,139	2,889,268	1,612,328
Total noninterest income	35,758,672	15,136,838	13,377,867
Total operating revenues	488,921,479	580,864,191	442,715,941
OPERATING EXPENSES			
Provision for loan losses	-	11,842,981	653,836
Interest expense:			
Deposits	229,712,412	302,397,197	228,595,905
Securities sold under agreements to repurchase	23,917,723	22,618,003	18,540,183
Commercial paper	10,678,317	20,899,500	40,146,063
Certificates of indebtedness	487,903	1,278,083	8,522,795
Bonds and notes payable	75,839,338	90,981,624	27,424,772
Total interest expense	340,635,693	438,174,407	323,229,718
Noninterest expenses			
Salaries and fringe benefits	25,484,675	26,179,902	25,669,532
Depreciation and amortization	1,579,553	1,549,599	3,312,169
Occupancy and equipment costs	4,153,774	4,087,981	2,727,128
Legal and professional fees	2,952,187	3,354,188	3,558,219
Office and administrative	683,547	615,599	625,793
Credit for losses on guarantees and letters of credit	-	-	(12,710,970)
Net loss on derivatives	-	-	2,669,043
Other	3,546,037	11,689,807	7,021,643
Total noninterest expenses	38,399,773	47,477,076	32,872,557
Total operating expenses	379,035,466	497,494,464	356,756,111
OPERATING INCOME	109,886,013	83,369,727	85,959,830
NONOPERATING EXPENSES - Contributions to Cooperative Development Investment Fund and other	(2,658,483)	(3,207,279)	(4,892,396)
SPECIAL ITEM – Early retirement program	(31,405,694)	-	-
CHANGE IN NET ASSETS	75,821,836	80,162,448	81,067,434
NET ASSETS – Beginning of year	1,381,191,101	1,301,028,653	1,219,961,219
NET ASSETS – End of year	$1,457,012,937	$1,381,191,101	$1,301,028,653

Capitalization. The following table sets forth the notes, bonds and net assets of the Bank (not including its subsidiaries) as of June 30, 2008 and as adjusted to reflect the issuance of the 2008 Notes and the 2009 Series A Notes.

	June 30, 2008	As Adjusted
Notes and Bonds		
Adjustable Refunding Bonds Due December 1, 2015(*)	$ 267,000,000	$ 267,000,000
2008 Notes(**)	-	1,230,000,000
Other bonds and notes	688,829,433	688,829,433
Sub-Total	955,829,433	2,185,829,433
2009 Series A Notes offered hereby	-	250,000,000
Total Notes and Bonds	$ 955,829,433	$2,435,829,433
Net Assets		
Invested in capital assets	$ 22,850,528	$ 22,850,528
Unrestricted	1,434,162,409	1,434,162,409
Total net assets	$1,457,012,937	$1,457,012,937

* The Bank repurchased its Adjustable Refunding Bonds due December 1, 2015 on August 1, 2008. The Bank expects to remarket the bonds during calendar year 2009.

** The Bank issued its $944,533,000 2008 Series A Notes on December 30, 2008 and its $285,467,000 Series B Notes on January 8, 2009.

Interest Rate Spread. The following table sets forth, for each of the three fiscal years in the period ended June 30, 2008, the average interest rate earned by Government Development Bank (excluding its subsidiaries) on its interest-earning assets and the average interest rate paid by Government Development Bank (excluding its subsidiaries) for its interest-bearing liabilities and the corresponding spread.

	For the year ended June 30,		
	2008	2007	2006
Average interest rate earned	5.00%	5.83%	5.04%
Average interest rate paid	4.29	5.06	4.18
Spread	0.71%	0.77%	0.86%

Liquidity and Sources of Funding. As of June 30, 2008, approximately $5.2 billion, or 47.8%, of the Bank's assets (excluding its subsidiaries) consisted of cash and due from banks, money market instruments and investment securities. At June 30, 2008, $3.1 billion, or 94%, of the investment securities were classified among the three highest rating categories. Approximately $3.8 billion, or 73.6%, of the investment portfolio matured in 90 days or less. Of the $5.2 billion in the investment portfolio, approximately $740.9 million was pledged to secure borrowings of the Bank.

The following table sets forth a breakdown of Government Development Bank's (not including subsidiaries) total funding by source.

	(Amounts in millions)					
	As of June 30,					
	2008		2007		2006	
Funding Source	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Public Funds:						
Demand Deposits	$2,780.6	29.78	$2,073.9	22.72	$2,105.7	20.43
Certificates of Deposit	4,373.0	46.84	3,228.7	35.37	3,933.5	38.16
Commercial Paper	0.5	0.01	575.9	6.31	985.1	9.56
Private Deposits	538.7	5.77	857.2	9.39	800.2	7.75
Bonds and notes	955.8	10.24	1,937.2	21.22	1,968.5	19.10
Repurchase Agreements	687.2	7.36	455.0	4.99	515.0	5.00
Total	$9,335.8	100.00	$9,127.9	100.00	$10,308.0	100.00

Special Capital and Income Contributions. Act No. 82 of June 16, 2002 ("Act No. 82") amended the Bank's Charter to authorize the Bank to transfer annually to the Commonwealth's General Fund, beginning with fiscal year 2001, up to 10% of its audited net income or $10,000,000, whichever is greater. The Bank is not required by Act No. 82 to transfer any funds. The Bank made payments to the General Fund of $11.6 million for fiscal year 2003 and $18.4 million for fiscal year 2004. The Bank has not made any additional payment to the General Fund under Act No. 82 since fiscal year 2004 and does not expect to make a payment during fiscal year 2009.

Possible Impact of the Commonwealth's Fiscal Imbalance on the Finances of the Bank. As discussed above, one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities. Accordingly, the Bank's loan portfolio includes loans to various departments and agencies of the central government, to various public corporations, and to municipalities. Loans to the central government and its agencies typically include a working capital line of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds, and in recent years loans to finance the central government's budget deficit, which loans are payable from uncollected taxes and from annual appropriations made by the Legislative Assembly. It is primarily the loans to the central government payable from uncollected taxes and from annual appropriations that are most affected by the Commonwealth's current fiscal imbalance, and which, therefore, have a greater potential of affecting the Bank's financial condition and liquidity.

The Commonwealth's access to funding through the bond market to finance its capital improvement programs and those of its instrumentalities as well as the Commonwealth's budget deficit may be adversely affected if its credit rating is reduced. If this happens, the Bank may be asked to provide financing for these capital improvement programs or for working capital needs. The Bank is not required by law to provide such financing. Under a law enacted in 2001, the Bank is prohibited from making loans to any governmental entity for which the source of repayment consists of appropriations from the General Fund without first obtaining the approval of the Legislative Assembly, with certain limited exceptions, including if such loan is needed to cover the borrower's debt service. It is also the Bank's current policy not to provide financing to any instrumentality of the Commonwealth (other than the central government) unless the Bank is satisfied that the borrowing instrumentality has the ability to repay such financing from its resources. The Bank, however, has provided this type of financing in the past to the Aqueduct and Sewer Authority and other government entities that have not had sufficient resources. A material increase in the amount of loans to the public sector may have an adverse effect on the Bank's financial condition.

If, notwithstanding the Bank's efforts, its level of public sector loans increases as a result of the reasons mentioned above, or if debt service payments on these loans are deferred, the Bank may need to increase its borrowings or otherwise access alternate sources of funds. The Bank's ability to raise additional debt in the capital markets, however, may be affected by any downgrade of the Commonwealth's credit rating, which may result in a downgrade of its own credit rating. Although the Bank believes that it has adequate alternate sources of funds, such as deposits of government instrumentalities currently held by private banks, no assurance can be given that the Bank would in fact be able to access these alternate sources of funds.

Investment Portfolio

General. The following tables set forth the Bank's investment portfolio (not including its subsidiaries) at June 30, 2008, 2007 and 2006, by instrument and maturity. As of June 30, 2008, the expected average life of its investment portfolio is 1.9 years and approximately 77% of the investment portfolio has an average life of less than one year. At June 30, 2008, 2007 and 2006, the Bank's investment portfolio was $5.2 billion, $4.0 billion and $3.8 billion, respectively.

The following tables show the Bank's investment portfolio by type of instrument and by maturity:

(Amounts in millions)

	As of June 30,					
	2008		2007		2006	
Instrument	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
United States Government and Sponsored Agencies Securities[1]	$ 765	14.67	$ 754	18.95	$ 695	18.28
Money Market[2]	3,814	73.16	2,766	69.53	2,439	64.17
Non-Participating Investment Contracts	189	3.63	210	5.27	228	5.99
Other[3]	445	8.54	253	6.25	440	11.56
Total	$5,213	100.00	$3,983	100.00	$3,802	100.00

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

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

(3) Includes cash, asset-backed securities, corporate bonds and bonds of the Commonwealth, its municipalities and instrumentalities.

The following table shows the Bank's investment portfolio by maturity:

(Amounts in millions)

	As of June 30,					
	2008		2007		2006	
Maturity	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Less than one year	$3,925	75.29	$2,975	74.79	$2,886	75.95
More than one but less than 5 years	409	7.85	266	6.70	291	7.65
After than 5 years	879	16.89	742	18.51	625	16.40
Total	$5,213	100.00	$3,983	100.00	$3,802	100.00

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

As of the date of this Official Statement, the Bank does not have any interest rate swaps outstanding.

Loans to the Commonwealth, its Public Corporations and Municipalities

The table below shows, for each of the Bank's public sector borrowers as of June 30, 2008 (including loans to the Bank's subsidiaries and excluding municipalities), the name of the borrower, the aggregate outstanding principal amount borrowed and the source or sources of repayment:

Name of Borrower	Outstanding Principal Amount (in thousands)	Sources of Repayment
Departments and Agencies of the Commonwealth		
ACUDEN	$ 5,257	(FIA) Dedicated Sales Tax Fund
Agricultural Services Administration	127,578	Legislative appropriations; (FIA) Dedicated Sales Tax Fund and Operating Revenue
Capitol	10,436	(PIF) Proceeds of Commonwealth general obligation bonds
Catastrophic Illnesses	13,758	(FIA) Dedicated Sales Tax Fund and legislative appropriations
Commonwealth of Puerto Rico – Department of the Treasury	979,511	Legislative appropriations; (FIA) Dedicated Sales Tax Fund; and (PIF) proceeds of Commonwealth general obligation bonds
Corrections and Rehabilitation Department	19,074	(PIF) Proceeds of Commonwealth general obligation bonds
Department of Agriculture	63,873	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Department of Education	121,073	Legislative appropriations; (PIF) proceeds of Commonwealth general obligation bonds; and (FIA) Dedicated Sales Tax Fund
Department of Health	316,747	Legislative appropriations; (PIF) proceeds of Commonwealth general obligation bonds; (FIA) Dedicated Sales Tax Fund; and Fondo Especial de la Salud, Act No. 243 of November 17, 2006 (State Insurance Fund – General Fund)
Department of Justice	64,549	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Department of Transportation and Public Works	77,002	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Emergency Fund (OMB)	84,454	Legislative appropriations – General Fund
Housing Department	27,979	Operating revenues
Institute of Puerto Rican Culture	17,690	(PIF) Proceeds of Commonwealth general obligation bonds
Municipal Revenues Collection Center	186,364	Legislative appropriations and property taxes
Natural Resources Department	1,705	(PIF) Proceeds of Commonwealth general obligation bonds
Puerto Rico Court Administration	32,094	Operating revenues
Puerto Rico Police Department	60,586	(PIF) Proceeds of Commonwealth general obligation bonds
Sports and Recreational Department	23,370	(PIF) Proceeds of Commonwealth general obligation bonds
Public Corporations of the Commonwealth		
Aqueduct and Sewer Authority	109,472	Proceeds of bond issues
Cancer Center	9,390	Legislative appropriations
Cantera Peninsula	981	(PIF) Proceeds of Commonwealth general obligation bonds
Convention Center District Authority	150,739	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Economic Development Bank	11,524	Operating revenues
Electric Power Authority	113,065	Proceeds of bond issues; legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Highway and Transportation Authority	83,571	Proceeds of bond issues
Housing Finance Authority	52,725	(PIF) Proceeds of Commonwealth general obligation bonds and operating revenues
Industrial Development Fund Company	89,075	Legislative appropriations; (FIA) Dedicated Sales Tax Fund and Internal Revenue

Name of Borrower	Outstanding Principal Amount (in thousands)	Sources of Repayment
Industrial Fund for Agricultural Development	52,930	Operating revenues
Infrastructure Finance Authority	24,511	(PIF) Proceeds of Commonwealth general obligation bonds and operating revenues
Land Administration	145,207	Proceeds from sales of properties
Maritime Shipping Authority	1,150	Operating revenues
National Parks Company	7,594	(PIF) Proceeds of Commonwealth general obligation bonds
Ports Authority	39,855	Operating revenues
Port of the Americas Authority	112,414	Proceeds of bond issues
Public Buildings Authority	75,000	Legislative appropriations; and (FIA) Dedicated Sales Tax Fund
Public Housing Administration	139,315	HUD's Funds (Federal funds)
Puerto Rico Public Finance Corporation	103,936	Legislative appropriations; and (FIA) Dedicated Sales Tax Fund
Rural Development Corporation	14,549	(PIF) Proceeds of Commonwealth general obligation bonds
Solid Waste Authority	59,467	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Special Communities Perpetual Fund Trust	376,095	Legislative appropriations; and (PIF) proceeds of Commonwealth general obligation bonds
Tourism Development Fund	213,934	Operating revenues and proceeds of bond issue
University of Puerto Rico	34,128	Proceeds of bond issues
University of Puerto Rico Medical Services	17,000	Operating revenues
Veterans Advocate's Office	1,135	(FIA) Dedicated Sales Tax Fund
Total	$4,271,862	

FIA – Dedicated Sales Tax Fund
PIF – Public Improvement Fund

The table below shows the principal amounts owed to the Bank from public sector loans by source of repayment:

Source of Repayment	Outstanding Principal Amount as of June 30, 2008 (in thousands)
Legislative Appropriations (FIA)	$1,036,864
Proceeds of Commonwealth General Obligation Bonds (PIF)	1,185,585
Legislative Appropriations (General Fund)	576,243
Proceeds of Bond Issues (other than proceeds of Commonwealth general obligation bonds)	485,480
Federal Funds (Federal Grants and other funds received from the federal government)	139,315
Operating Revenues of the respective borrowers (including proceeds generated through the sale of assets and/or operations)	848,375
Total	$4,271,862

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

Under the provision of the Joint Resolution that sets forth the principles of the proposed fiscal reform, it is proposed that Act No. 164 and certain other laws that authorize the Secretary of the Treasury to borrow funds in anticipation of tax revenues be amended to require that the Secretary of the Treasury obtain the approval of the Legislative Assembly before entering into any loan (i) whose proceeds will be used to balance the Commonwealth's budget, and (ii) which would not be repaid in the then current fiscal year.

Loans to Departments and Agencies of the Commonwealth. The Secretary of the Treasury and other agencies of the central government of the Commonwealth may borrow monies from the Bank for capital improvements and operating needs. As of June 30, 2008, the outstanding principal amount of the Bank loans to the Commonwealth and other central government agencies was $2.0 billion.

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

Agricultural Services Administration. The Agricultural Services Administration is a separate legal entity attached to the Department of Agriculture. The Administration is authorized to provide agricultural services to promote the development of fanning and of agriculture in general. As of June 30, 2008, the Administration had $127.6 million of indebtedness outstanding with the Bank.

Department of Agriculture. The Department of Agriculture is engaged in providing loans to farmers and in building and leasing commercial buildings. As of June 30, 2008, outstanding indebtedness to the Bank was approximately $63.9 million.

Department of Education. The Department of Education is responsible for the planning, structuring and administration of the Commonwealth's public school system, including its school facilities and curriculums. The Secretary of Education is also responsible for the implementation of fiscal controls on a system-wide and individual school basis, system-wide budget planning, and the evaluation of scholastic performance and achievement. As of June 30, 2008, outstanding indebtedness to the Bank was approximately $121.1 million.

Department of Health. The Department of Health is in charge of all matters delegated to it by law related to health and public welfare. Among the health programs it administers, along with the Health Insurance Administration, is comprehensive health insurance coverage for qualifying (generally low income) Puerto Rico residents. The health insurance system covers the entire island, and approximately 1.5 million persons were covered by the system during fiscal year 2008. The Department was granted a $203 million loan by the Bank to cover part of the costs of the health insurance program for fiscal year 2007. Along with other loans to finance operational expenses of the Medical Services Administration, as of June 30, 2008, the Department of Health had $316.7 million in loans outstanding with the Bank.

Department of the Treasury. The Commonwealth, through the Department of the Treasury, is authorized to borrow funds from the Bank. During fiscal year 2007-2008, the Bank provided one loan to the Secretary of the Treasury for the purpose of providing funds to finance the Commonwealth debt service for the months of March, April, May and June 2008, as further described below. During the 2008 and 2009 fiscal years, the Department of the Treasury also entered into the following transactions:

- In July 2007, Scotiabank and a syndicate of seven banks approved a line of credit to the Treasury Department in the amount of $1,500,000,000 in advance of the Tax and Revenue Anticipation Notes Series 2008 ("TRANS Series 2008"). In November 2007, the TRANS Series 2008 were issued in the amount of $1,010,000,000 to cover the outstanding debt of this line of credit. The line of credit was re-activated in November 2007 and, as of June 30, 2008, the undisbursed amount of the line of credit with commercial banks was $490 million.

- In September 2007, the Commonwealth issued its general obligation Public Improvement Bonds, Series 2007 A and B in the amount of $500 million. In October 2007, the Commonwealth issued its Public Improvement Refunding Bonds, Series 2007 A and B in the amount of $987,115,000 to refinance certain outstanding Public Improvement Bonds at a net present value debt service savings of $58.2 million.

- In March 2008, the Bank approved a line of credit to the Treasury Department in an amount not to exceed at any one time $171 million for the purpose of providing funds to finance the Commonwealth debt service for the months of March, April, May and June 2008. This general obligation line of credit was authorized by Act No. 33 of the Legislature of Puerto Rico, approved December 7, 1942, as amended ("Act No. 33"). Pursuant to said Act, the Secretary of the Treasury, with the approval of the Governor of Puerto Rico, is authorized to issue and sell at any one time or from time to time general obligation refinancing public improvement bonds or notes of the Commonwealth in order to refinance outstanding public improvement and public improvement refunding bond issues of the Commonwealth. This line of credit was paid off on May 7, 2008 with part of the proceeds of the general obligation Public Improvement Refunding Bonds, Series 2008 A, B and C, the total net present value debt service savings of which amount to $209.2 million.

- On September 18, 2008, the Commonwealth issued the 2008 GO Bonds as more fully described under "Additional Commonwealth Debt" under *Recent Developments Relating to the Commonwealth* above.

- In June 2008, Scotiabank and a syndicate of five banks approved a line of credit to the Treasury Department in the amount of $1,110,000,000 and the Bank provided an additional line of credit to the Treasury Department in the amount of $390,000,000 in advance of the Tax and Revenue Anticipation Notes Series 2009 ("TRANS Series 2009"). In November 2008, the TRANS Series 2009A were issued in the amount of $887,675,000 (consisting of Subseries 2009A1 through 2009A4) to cover the outstanding debt of this line of credit.

- On September 9, 2008, October 10, 2008, October 17, 2008, November 26, 2008 and December 1, 2008, the Bank purchased an aggregate principal amount of $1 billion of Tax Receivable Anticipation Bonds of the Commonwealth of Puerto Rico, Series 2008A issued in five separate tranches in the amounts of $300,000,000, $50,000,000, $50,000,000, $250,000,000, and $350,000,000, respectively. These bonds are payable from the revenue generated from the collections of the Commonwealth's delinquent tax receivables.

As of June 30, 2008, the aggregate outstanding principal amount of all the Bank loans made to the Secretary of the Treasury was $979.5 million.

Department of Transportation and Public Works. The Department of Transportation and Public Works is responsible for all public works carried out in Puerto Rico, including all roads and highways, and all public property of the Commonwealth. As of June 30, 2008, outstanding indebtedness to the Bank was approximately $77 million.

Emergency Fund. An Emergency Fund was created by Act No. 91 of June 21, 1966, as amended (the "Emergency Fund"), to cover unexpected public needs caused by calamities, such as wars, hurricanes, earthquakes, droughts, floods and plagues, and to protect people's lives and property and the public sector credit. The Emergency Fund is capitalized annually with an amount totaling no less than one percent of the Commonwealth General Fund net revenues of the preceding fiscal year. Act No. 91 was amended in 2003 to set an upper limit to the Emergency Fund of $150 million at the beginning of the fiscal year and was further amended in 2005 to authorize the disbursement of funds from the Emergency Fund to cover certain General Fund expenditures and operational costs of the State Emergency Management Agency. The 2005 amendment also authorizes the Bank to lend to the Commonwealth up to $150 million to replenish the Emergency Fund to provide funding for emergency and disaster needs. As of June 30, 2008, the balance in the Emergency Fund was less than $2.1 million, and the Bank had an outstanding loan to the Emergency Fund of $84.5 million.

Loans to Public Corporations. The Bank lends funds to the public corporations of the Commonwealth for capital improvements and operating needs. The loans to public corporations for capital improvements generally are construction loans and are repaid from the proceeds of future bond issues of the respective public corporations. Such loans may, however, also be repaid from the revenues of such public corporations, from accreting certificates of deposit held by the Bank, from loans provided by sources other than the Bank, from federal grants, and from the sale of assets of such public corporations. The amount of outstanding loans from the Bank to the public corporations fluctuates annually, depending upon the capital program needs of the public corporations, the timing and level of their capital expenditures, and their ability to gain access to the long-term capital markets. As of June 30, 2008, the principal amount of loans outstanding to public corporations was approximately $2.1 billion.

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

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

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

On March 18, 2008, PRASA issued $159,055,000 of Revenue Refunding Bonds, 2008 Series A, and $125,700,000 of Revenue Refunding Bonds, 2008 Series B, guaranteed by the Commonwealth. Although these bonds were not issued by the Commonwealth, the payment of principal of and interest on said bonds is guaranteed by the Commonwealth. The total debt of PRASA was $2.3 billion as of June 30, 2008, including $109.5 million from a Bank financing.

Beginning in fiscal year 2006, the Commonwealth's General Fund ceased to provide financial assistance to PRASA, including making payments on PRASA's guaranteed revenue bonds (as of January 1, 2006). As part of its efforts to regain fiscal independence, PRASA implemented substantial increases in water and wastewater service rates in two phases. The first phase took effect on October 10, 2005. The second phase took effect on July 1, 2006. In the event PRASA is unable to make any portion of the future debt service payments on its guaranteed bonds, the Commonwealth would be required to make such payments under its guarantee from the General Fund. PRASA has also begun to pay from its revenues the debt service on a note it issued to Public Finance Corporation (in the principal amount of $368.3 million), which note financed the cost of the north coast super-aqueduct, as well as notes issued to Public Finance Corporation (in the principal amount of approximately $747 million), which notes financed its operations.

In June 2006, PRASA entered into an agreement to plead guilty to an indictment charging 15 felony counts of violating the federal Clean Water Act through the illegal discharge of pollutants from nine sanitary wastewater treatment plants and five drinking water treatment plants. Under the plea agreement, PRASA will pay a criminal fine of $9 million and was placed on five years' probation. PRASA and the United States also reached a comprehensive civil settlement to resolve repeated environmental violations at 62 wastewater treatment plants throughout the Commonwealth. According to the civil settlement, PRASA will spend an estimated $1.7 billion implementing approximately 145 capital improvement projects and other remedial measures at all of its wastewater treatment plants and related collection systems over the next 15 years. In December 2006, PRASA and the Commonwealth Department of Health executed a settlement agreement superseding 180 administrative orders against, and three prior settlement agreements with, PRASA. Under the terms of this agreement, PRASA paid a civil penalty of $1.0 million and agreed to implement short, medium and long-term work plans, as well as interim mitigation and preventative measures, all to bring PRASA's water system into compliance with federal and Commonwealth potable water regulations. The total cost of complying with this settlement agreement is expected to be between $700 and $800 million.

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

The Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AF1CA") financed the construction of a multi-purpose coliseum in San Juan, known as the Jose Miguel Agrelot Coliseum, with a line of credit provided by the Bank. The Coliseum was transferred to the Convention Center District Authority along with the associated line of credit. The Convention Center District Authority's debt as of June 30, 2008 was $616.5 million, including $150.7 million from a Bank financing.

Electric Power Authority. The Electric Power Authority owns and operates the island's electric system. The capital improvement program for the five-year period ending June 30, 2012 is estimated to cost approximately $2.3 billion and will be financed primarily by borrowed funds, supplemented by internally generated funds. The Electric Power Authority's bonded debt consists of Power Revenue Bonds, secured by a lien on net revenues of the electric system. As of June 30, 2008, the Electric Power Authority's total debt was $7.3 billion, including $113.1 million from a Bank financing. As a means of reducing its dependency on oil, the Electric Power Authority has entered into long-term power purchase agreements with the operators of two co-generation plants that use fuels other than oil. Currently, these two co-generation plants provide approximately 27% of the Electric Power Authority's energy needs.

Highways and Transportation Authority. The Highways and Transportation Authority is responsible for highway construction in Puerto Rico. Such construction is financed by debt (interim notes and revenue bonds), revenues of the Highways and Transportation Authority, and federal and Commonwealth grants. Debt service on the Highways and Transportation Authority's revenue bonds constitutes a first lien on its gross revenues, which consist currently of all the proceeds of the tax on gasoline, one-half of the proceeds of the tax on gas oil and diesel oil, all the proceeds of the excise taxes on crude oil, unfinished oil and derivative products, up to $120 million per fiscal year, highway toll revenues, and the gross receipts of $15.00 per vehicle per year from certain motor vehicle license fees. Such revenues (except for toll revenues) may be applied first to the payment of debt service on general obligation bonds and notes of the Commonwealth and to payments required to be made by the Commonwealth under its guarantees of bonds and notes, to the extent that no other revenues are available for such purpose. The Commonwealth has never applied such revenues for such payment. As of June 30, 2008, the Highways and Transportation Authority's total debt was $7.1 billion.

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

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

The Highways and Transportation Authority, Government Development Bank, as its financial advisor and fiscal agent, and the Commonwealth, are evaluating a long-term Operation and Maintenance Agreement ("OMA") for PR-22, José de Diego Highway. PR-22, which spans 52 miles from east to west in northern Puerto Rico, currently operated and maintained by the Highways and Transportation Authority. Approval by the Highways and Transportation Authority's and the Bank's Boards of Directors will be required before the OMA is signed. The OMA will be a long-term agreement granting the private operator the exclusive right to operate and maintain the PR-22 Highway and to collect tolls on behalf of the Highways and Transportation Authority and other revenue per the terms of the OMA. The term of the proposed transaction is to be determined, but is anticipated to range from 50-75 years. It is further anticipated that the private operator will make an upfront payment to Highways and Transportation Authority upon the financial closing of the transaction. Under the terms of the OMA the Highways and Transportation Authority will retain the primary control and supervision of PR-22 and will require the private operator to maintain the PR-22 Highway to an agreed-upon standard. The private operator has not yet been selected although the Highways and Transportation Authority is evaluating the qualifications of certain bidders for the project. The OMA would provide the Highways and Transportation Authority an alternate funding source to repay outstanding debt and finance its Capital Improvement Program.

In February 2008, GDB approved a line of credit for $140 million to finance the Highways and Transportation Authority's Capital Improvement Program, which line had an outstanding balance as of June 30, 2008 of $83.6 million. The Highways and Transportation Authority requested a new line of credit for $147 million to continue financing its Capital Improvement Program during the first half of fiscal year 2009.

Industrial Development Company. The Industrial Development Company participates in the Commonwealth-sponsored economic development program by providing physical facilities, general assistance, and special incentive grants to manufacturers. The Company was merged with the Economic Development Administration in January 1998. Rentals derived from the leasing of specified facilities of the Company are pledged to the payment of the Company's revenue bonds. As of June 30, 2008, the Company's total debt was

$352.8 million, including $89.1 million from a Bank financing. The Company restructured its operations in order to allow it to react quickly to changing business situations. Part of this restructuring included a significant reduction in the number of its employees.

Infrastructure Financing Authority. The Infrastructure Financing Authority was created to provide financial, administrative, consulting, technical, advisory, and other types of assistance to other public corporations, governmental instrumentalities, political subdivisions and municipalities (collectively, "Benefited Entities") authorized to develop infrastructure facilities and to establish alternate means for financing those facilities. The Infrastructure Financing Authority is authorized to issue bonds and provide loans, grants and other financial assistance for the construction, acquisition, repair, maintenance and reconstruction of infrastructure projects by Benefited Entities. The Infrastructure Financing Authority oversees the Puerto Rico Infrastructure Fund, which is funded with annual fixed amounts from the first proceeds of federal excise taxes imposed on rum and other articles produced in Puerto Rico and sold in the United States which are transferred to Puerto Rico pursuant to the United States Internal Revenue Code of 1986, as amended. Currently, this amount is $90 million through fiscal year 2009 and will then increase to $117 million annually through fiscal year 2052. Rum is the only article currently produced in Puerto Rico subject to federal excise taxes, the proceeds of which are required to be returned to the Puerto Rico Treasury. The Infrastructure Financing Authority is using these amounts to provide financial support for various infrastructure and other projects. As of June 30, 2008, the Infrastructure Financing Authority's total debt was $1.9 billion, including $24.5 million from a Bank financing.

The Infrastructure Financing Authority will invest approximately $405 million in new infrastructure projects in connection with the holding of the Central American and Caribbean Games in Mayagüez, Puerto Rico, in 2010. In September 2006, the Infrastructure Financing Authority issued $469.8 million of bonds to finance these and other infrastructure projects.

Port of the Americas Authority. The Port of the Americas Authority is responsible for the development and operation of the Port of the Americas (the "Port"), a deep draft port on the south coast of Puerto Rico. In December of 2004, the first phase of the Port was completed at a cost of $40 million. The Port of the Americas Authority is authorized to issue bonds guaranteed by the Commonwealth in a maximum aggregate principal amount of $250 million. The proceeds from these bonds will be used to continue the development of the Port. Currently, the Bank is authorized to purchase bonds of the Port of the Americas Authority in an aggregate principal amount not to exceed $250 million. As of June 30, 2008, Government Development Bank held approximately $112.4 million of the Port of the Americas Authority's outstanding bonds, which are guaranteed by the Commonwealth.

Ports Authority. The Ports Authority owns and operates the major airport and seaport facilities in Puerto Rico. The Ports Authority derives revenues from a variety of sources, including charges on airplane fuel sales, air terminal space rentals, landing fees, wharfage, dockage and harbor fees, and rentals for the lease of property and seaport equipment. As of June 30, 2008, the Ports Authority had $685.5 million in debt, including $39.9 million from a Bank financing.

The Ports Authority, Government Development Bank, as its financial advisor and fiscal agent and the Commonwealth, are evaluating a potential long-term concession (the "Concession Agreement") for the operation of the parking facilities at San Juan's Luis Muñoz Marín International Airport, comprised of the existing parking structure, the adjacent surface parking lot and an auxiliary area currently not being used as a parking lot (collectively the "Parking Facilities"). Approval by the Ports Authority's and the Bank's Boards of Directors will be required before the Concession Agreement is signed. The Concession Agreement will be a long-term agreement granting the private operator the exclusive right to operate the Parking Facilities and to collect parking fees and other revenue per the terms of the Concession Agreement. The term of the proposed transaction is to be determined, but is anticipated to range from 50-75 years. It is further anticipated that the private operator will pay both an upfront payment and, based upon additional revenue sources related to future business opportunities, ongoing annual payments to be determined. The Concession Agreement will require the private operator to maintain the Parking Facilities to an agreed-upon standard, and potentially to expand the Parking Facilities through a design-build-finance-operate and maintain process for a second structure, and potentially a third parking structure on the auxiliary lot, upon terms defined in the Concession Agreement. The private operator has not yet been selected although the Ports Authority is evaluating the qualifications of certain bidders for the project. The Concession Agreement would provide the Ports Authority an alternate funding source to repay outstanding debt and finance its Capital Improvement Program.

Public Buildings Authority. The Public Buildings Authority is authorized to construct, purchase or lease office, school, health, correctional and other facilities for lease to departments, public corporations and instrumentalities of the Commonwealth. Bonds that have been issued by the Public Buildings Authority to finance such facilities (through retirement of interim notes or otherwise) are payable from lease payments, which are largely derived from legislative appropriations and are secured by the Commonwealth's guaranty. The Public Buildings Authority is authorized by law to have outstanding at any one time up to $3.325 billion of bonds guaranteed by the Commonwealth. As of June 30, 2008, $3.099 billion of such bonds of the Public Buildings Authority were outstanding (not including accretion of interest from the respective issuance dates on capital appreciation bonds). As of June 30, 2008, the Public Buildings Authority's line of credit with the Bank had an outstanding balance of $75 million.

Special Communities Perpetual Trust. The Special Communities Perpetual Trust, a public corporation, is an irrevocable and permanent trust. The Trust's principal purpose is to fund development projects which address the infrastructure and housing needs of underprivileged communities. The Bank made a special capital contribution to the Special Communities Perpetual Trust of $500 million and provided the Trust with a $500 million non-revolving line of credit. The amounts transferred by the Bank were deposited in two investment accounts held by the Bank for the benefit of the Special Communities Perpetual Trust, of which $698.2 million had been disbursed to the Trust as of December 31, 2007. As of June 30, 2008, the Special Communities Perpetual Trust's line of credit with the Bank had an outstanding balance of $376.1 million. The line of credit is payable from legislative appropriations.

University of Puerto Rico. The University of Puerto Rico (the "University"), with approximately 63,682 students in academic year 2007-2008, is by far the largest institution of higher education on the island. Government appropriations are the principal source of University revenues, but additional revenues are derived from tuition, student fees, auxiliary enterprises, interest income, federal grants and other sources. University capital improvements have been financed mainly by revenues bonds. As of June 30, 2008, the University's total debt was $619.2 million, including $34.1 million from a Bank financing.

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

Loans to Municipalities. The Bank also purchases general obligation and other bonds and notes of the municipalities of Puerto Rico, which obligations are issued by said municipalities to finance their public works projects and operational needs. The bonds and notes relating to public works projects are generally sold by the Bank to MFA, which issues its bonds to acquire such bonds and notes. As of June 30, 2008, approximately $1.0 billion aggregate outstanding principal amount of bonds and notes issued by the municipalities were held by the Bank.

Loans to Private Enterprises

The Bank's loans to the private sector (not including the lending activities of its subsidiaries, Housing Finance Authority and Tourism Development Fund) are primarily for the establishment or expansion of manufacturing entities, the purchase of machinery and equipment, the construction of commercial and industrial buildings, and the construction of hotel and tourist facilities. The Bank also provides working capital loans to the private sector. As of June 30, 2008, the Bank has $210,000 of outstanding loans to the private sector.

In its lending to the private sector, the Bank does not compete with private lenders nor does it make loans to borrowers whose credit is not acceptable to such lenders. The Bank offers longer maturities than are normally available from commercial banks and, where possible, participates in co-financing arrangements with private lenders. Guarantees by federal agencies are obtained whenever possible.

SUMMARY OF THE INDENTURE

The Notes will be issued pursuant to the Indenture between Government Development Bank and Banco Popular de Puerto Rico, as trustee. Government Development Bank may issue additional securities pursuant to the Indenture.

Events of Default and Remedies

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

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

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

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

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

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

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

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

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

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

> (a) If the principal amount of all the Notes shall not have become due and payable or shall not have been declared due and payable, all such moneys shall be applied first: to the payment to the persons entitled thereto of all installments of interest then due and payable in the order in which such installments became due and payable, with interest on such installments of interest, to the extent permitted by law, at the rate of such interest from the respective dates upon which such installments became due and payable, and, if the amount available shall not be sufficient to pay in full any particular installment, together with interest thereon, then to the payment first of the interest on such installment, ratably, according to the amount of such interest due on such date, and then to the payment of such installment, ratably, according to the amounts due on such installment, to the persons entitled thereto; <u>second:</u> to the payment to the persons entitled thereto of the unpaid principal of any Notes which shall have become due and payable in the order of their due dates, with interest on the principal amount of such Notes at the respective rates specified therein from the respective dates upon which such Notes became due and payable, and, if the amount available shall not be sufficient to pay in full the principal of the Notes due and payable on any particular date, together with such interest, then to the payment first of such interest, ratably, according to the amount of such interest due on such date, and then to the payment of such principal ratably, according to the amount of such principal due on such date, to the persons entitled thereto; and <u>third:</u> to the payment of the interest on and the principal of the Notes, and to the redemption of Notes, all in accordance with the provisions of the Indenture.
>
> (b) If the principal of all the Notes shall have become due and payable or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest (including interest on any overdue installment of interest to the extent permitted by law) then due upon such Notes, without preference or priority of principal over interest or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, according to the amounts due respectively for principal, interest and premium, if any, to the persons entitled thereto.

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

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

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

The holders of a majority of the aggregate principal amount of Notes then outstanding will have, subject to certain limitations, the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee with respect to the Notes. No Noteholder will have any right to institute any suit, action or proceeding in equity or at law on any Note or for the execution of any trust under the Indenture, or for any other remedy under the Indenture unless: (i) such holder has previously given to the Trustee notice of the event of default on account of which such suit, action or proceeding is to be instituted; (ii) the holders of not less than 25% of the aggregate principal amount of Notes then outstanding have requested of the Trustee in writing, after the right to exercise such powers or right of action, as the case may be, has accrued, and have afforded the Trustee a reasonable opportunity, either to proceed to exercise such powers or to institute such action, suit or proceeding in its name; (iii) the Trustee has been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred; (iv) the Trustee has refused or neglected to comply with such request within 60 days after its receipt of notice from the required percentage of Noteholders; and (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes. Such notification, request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture or to any other remedy thereunder. No one or more Noteholders will have any right, in any manner, to affect, disturb or prejudice any rights under the Indenture, or to obtain or to seek to obtain priority or preference over any other Noteholders, or to enforce any right thereunder, except in the manner therein provided. All suits, actions and proceedings at law or in equity must be instituted, had and maintained in the manner provided in the Indenture and for the benefit of all Noteholders. Any individual right of action or other right given to one or more Noteholders by law is restricted by the Indenture to the rights and remedies therein provided. Nothing in the Indenture, however, shall impair the right of any Noteholder to enforce the payment of the principal amount of, premium, if any, and interest on any Note after its due date.

Amendments or Supplements to the Indenture

The Indenture may be amended or supplemented at any time without the consent or approval of any of the Noteholders (a) to cure any ambiguity or formal defect or omission, to correct or supplement any provision which may be inconsistent with any other provision, or to make any other changes with respect to matters or questions arising under the Indenture which shall not be inconsistent with the provisions of the Indenture; (b) to grant to or confer upon the Trustee for the benefit of the Noteholders or the holder of any other series of securities any additional rights, remedies, powers, benefits, authority or security that may lawfully be so assigned or conferred; (c) to add to the covenants of Government Development Bank, or to surrender any right or power herein conferred upon Government Development Bank, for the benefit of the Noteholders or the holders of any other series of securities; (d) to permit the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect or to permit the qualification of the Notes or any other series of securities for sale under the securities laws of any of the states of the United States, and to add such other terms, conditions and provisions as may be required by said Trust Indenture Act or similar federal statute; (e) to provide for the issuance of additional securities as described under "Additional Debt Securities" below; (f) to evidence and provide for the acceptance of appointment by another corporation as a successor trustee with respect to one or more series of securities and to add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one trustee; (g) to comply with any requirements of the nationally recognized rating agency designated by Government Development Bank to rate the Notes or any other series of securities that is necessary in order for the Notes or such other securities to maintain the rating initially assigned or then applicable to them; or (h) to add any additional events of default in respect of the Notes or any other series of securities.

Other than for purposes of the above paragraph, the Indenture may be amended or supplemented with the consent of the holders of a majority in principal amount of the securities of each series affected by such amendment or supplement at the time outstanding under the Indenture; provided, however, that without the consent of every securityholder affected by such amendment or supplement, no such amendment or supplement may be adopted with respect to (a) a change in the maturity of the principal amount of or the interest, or any premium, on any security, or (b) a reduction in the principal amount of any security or the redemption premium, if any, or the rate of interest thereon, or (c) a reduction in the aggregate principal amount of the securities required for consent to such supplement or amendment or any waiver thereunder. The Trustee is not obligated to execute any proposed supplement or amendment if its rights, obligations and interests would be affected thereby.

Defeasance

Any outstanding 2009 Series A Note will be deemed to have been paid within the meaning of the Indenture when the whole amount of the principal of and interest on such Note has been paid or duly provided for and the conditions set forth in clause (c) below have been satisfied or when, among other things, (a) such Note has been duly called for redemption or irrevocable instructions to call such Note for redemption have been given to the Trustee, (b) there have been deposited with the Trustee either moneys in an amount which will be sufficient, or Government Obligations, which do not contain provisions permitting redemption at the option of the issuer, the principal of and interest on which when due, and without reinvestment, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee available therefor, will be sufficient, to pay when due the principal of and premium, if any, and interest due and to become due on such Note on or prior to the redemption date thereof, and (c) in the event such Note does not mature and is not to be redeemed within the next succeeding 60 days, Government Development Bank has given the Trustee irrevocable instructions to give, as soon as practicable, a notice to the holder of such Note stating that the deposit of moneys or Government Obligations described above has been made with the Trustee and that such Note is deemed to have been paid in accordance with the Indenture and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and premium, if any, and interest on such Note.

Additional Debt Securities

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

Certain Rights of the Trustee

In the Indenture, Government Development Bank will agree (i) to pay to the Trustee from time to time reasonable compensation for all services rendered by it, (ii) to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of the Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and (iii) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the Indenture, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties.

As security for the performance of the obligations of Government Development Bank described in the preceding paragraph, the Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any) or interest on particular Notes.

In the performance of its duties (i) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, opinion, direction, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties; (ii) the Trustee may consult with counsel and the advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon; (iii) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the Noteholders unless such Noteholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction; (iv) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, opinion, report, notice, request, direction, consent or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the relevant books, records and premises of Government Development Bank personally or by agent or attorney; and (v) the Trustee may execute any of its trusts or powers either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it.

TAX MATTERS

Puerto Rico Taxation

The following is a summary, provided by Fiddler González & Rodríguez, P.S.C., of certain Puerto Rico tax consequences of the ownership of the 2009 Series A Notes by Puerto Rico residents. This section does not purport to cover all of the Puerto Rico tax consequences arising from the purchase and ownership of the 2009 Series A Notes. The following is based upon laws and regulations now in effect and is subject to change, and any change may apply retroactively and affect the accuracy of the opinions, statements and conclusions set forth in this discussion. See also *Appendix II* – Form of Opinion of Special Tax Counsel. Persons considering the purchase of the 2009 Series A Notes should consult their independent tax advisors as to the application to their particular situations of the tax discussion described below.

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

In the opinion of Fiddler González & Rodríguez, P.S.C., based on the laws of Puerto Rico now in force:

1. Interest on the 2009 Series A Notes is exempt from Puerto Rico income and withholdings taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code");

2. The 2009 Series A Notes are exempt from property taxes imposed by the Municipal Property Tax Act of 1991, as amended, and interest thereon is exempt from the municipal license tax imposed by the Municipal License Tax Act of 1974, as amended;

3. The transfer of the 2009 Series A Notes by (i) gift will not be subject to gift tax under the P.R. Code in the case of donors who are residents of the Commonwealth at the time the gift is made and (ii) death will not be subject to estate tax under the P.R. Code in the case of a decedent who at the time of death was (x) a resident of Puerto Rico and (y) a United States citizen who acquired such citizenship solely by reason of birth or residence in Puerto Rico;

4. Gain recognized from the sale or exchange of a 2009 Series A Note will be subject to income tax under the P.R. Code to taxpayers subject to Puerto Rico income tax on such gains, including individuals residing in Puerto Rico and corporations and partnerships organized under the laws of the Commonwealth;

5. The 2009 Series A Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1112(f)(2)(A) of the P.R. Code applicable to certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1102 of the P.R. Code available to corporations and partnerships that have a certain percentage of their net income invested in obligations of instrumentalities of Puerto Rico and certain other investments; and

6. Interest on the 2009 Series A Notes constitutes "industrial development income" under Section 2(j) of the Puerto Rico Industrial Incentives Act of 1963, the Puerto Rico Industrial Incentives Act of 1978, the Puerto Rico Tax Incentives Act of 1987, the Puerto Rico Tax Incentives Act of 1998, as amended, and the Economic Incentives Act for the Development of Puerto Rico (collectively, the "Acts"), when received by a holder of a grant of tax exemption issued under any of the Acts that acquired the 2009 Series A Notes with "eligible funds," as such term is defined in the Acts.

Prospective owners of the 2009 Series A Notes, including but not limited to financial institutions, should be aware that ownership of the 2009 Series A Notes may result in having a portion of their interest and other expenses attributable to interest on the 2009 Series A Notes disallowed as deductions for purposes of computing the regular tax and the alternative minimum tax for Puerto Rico income tax purposes.

United States Taxation

Circular 230 Notice

Any discussion of U.S. federal tax issues set forth in this Official Statement relating to the 2009 Series A Notes was written in connection with the promotion and marketing of the transactions described in this Official Statement. Such discussion is not intended or written to be legal or tax advice with respect to the 2009 Series A Notes to any person and is not intended or written to be used, and cannot be used, by any person for the purpose of avoiding any U.S. federal tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.

U.S. Federal Income Tax Considerations – In General

The following summary, provided by Sidley Austin LLP, of certain United States federal income tax consequences of the purchase, ownership and disposition of the 2009 Series A Notes is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates) or possible differing interpretations. It deals only with 2009 Series A Notes held as capital assets and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, persons holding 2009 Series A Notes as a hedge against currency risks or as a position in a "straddle" for tax purposes, or persons whose functional currency is not the U.S. dollar. It also does not deal with holders other than investors who purchase 2009 Series A Notes in the initial offering at the first price at which a substantial amount of such substantially identical 2009 Series A Notes are sold to the general public (except where otherwise specifically noted). Persons considering the purchase of the 2009 Series A Notes should consult their tax advisors concerning the application of U.S. federal income tax laws to their particular situations as well as any consequences of the purchase, ownership and disposition of the 2009 Series A Notes arising under the laws of any other taxing jurisdiction.

As used herein, and except as provided below, the term "U.S. Holder" means a beneficial owner of a 2009 Series A Note that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (b) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person. Moreover, as used herein, the term "U.S. Holder" includes any holder of a 2009 Series A Note whose income or gain in respect of its investment in a 2009 Series A Note is effectively connected with a U.S. trade or business. The term U.S. Holder does not include a Puerto Rico U.S. Holder (defined below) or a Puerto Rico Corporation (defined below). As used herein, the term "Non-U.S. Holder" means a beneficial owner of a 2009 Series A Note that is not a U.S. Holder, a Puerto Rico U.S. Holder or a Puerto Rico Corporation.

As used herein, the term "Puerto Rico U.S. Holder" means a beneficial owner of a 2009 Series A Note that is an individual and a bona fide resident of Puerto Rico within the meaning of Section 937 of the United State Internal Revenue of 1986, as amended (the "U.S. Code"), and the regulations thereunder, during the entire taxable year, including the taxable year in which the 2009 Series A Notes are acquired. As used herein, the term “Puerto Rico Corporation” means a beneficial owner of a 2009 Series A Note that is a corporation organized under the laws of the Commonwealth.

Puerto Rico U.S. Holders & Puerto Rico Corporations

Interest on the 2009 Series A Notes

Interest paid or accrued on the 2009 Series A Notes to a Puerto Rico U.S. Holder will constitute gross income from sources within Puerto Rico and, therefore, will not be included in gross income and will be exempt from U.S. federal income taxation pursuant to Section 933(1) of the U.S. Code. In addition, for U.S. federal income tax purposes, no deduction or credit will be allowed that is allocable to or chargeable against amounts so excluded from the Puerto Rico U.S. Holder’s gross income.

Interest paid or accrued on the 2009 Series A Notes to a Puerto Rico Corporation will not be subject to income taxation under the U.S. Code provided that such interest is not effectively connected, or treated as effectively connected, with or attributable to the conduct of a trade or business within the United States by such corporation.

Sale or Retirement of 2009 Series A Notes

In general, pursuant to the provisions of Section 1.937-2 of the Treasury Regulations issued under the U.S. Code, the source of the income from the disposition of personal property by a Puerto Rico U.S. Holder shall be determined under the rules of Section 865 of the U.S. Code. Accordingly, gain on the sale or exchange of the 2009 Series A Notes that is recognized by a Puerto Rico U.S. Holder will constitute Puerto Rico source income and, therefore, qualify for the income exclusion under Section 933(1) of the U.S. Code.

A Puerto Rico Corporation generally will not be subject to income or withholding tax under the U.S. Code on gain recognized on the sale or exchange of the 2009 Series A Notes, unless the gain is effectively connected with the conduct by the Puerto Rico Corporation of a trade or business in the United States and other requirements are satisfied.

U.S. Holder

Payments of Interest

Interest on a 2009 Series A Note generally will be taxable to a U.S. Holder as ordinary interest income at the time such interest is accrued or received (in accordance with the U.S. Holder’s regular method of tax accounting).

Original Issue Discount

The following summary is a general discussion of the U.S. federal income tax consequences to U.S. Holders of the purchase, ownership and disposition of 2009 Series A Notes issued with original issue discount (“OID Notes”), if any. The following summary is based upon final Treasury regulations (the “OID Regulations”) released by the IRS under the original issue discount provisions of the U.S. Code.

For U.S. federal income tax purposes, original issue discount is the excess of the stated redemption price at maturity of a debt instrument, such as a 2009 Series A Note, over its issue price, if such excess equals or exceeds a *de minimis* amount (generally ¼ of 1% of the debt instrument’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a debt instrument providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such debt instrument). The issue price of each maturity of substantially identical 2009 Series A Notes equals the first price at which a substantial amount of such maturity of 2009 Series A Notes has been sold (ignoring sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The stated redemption price at maturity of a 2009 Series A Note is the sum of all payments provided by the 2009 Series A Note other than "qualified stated interest" payments. The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. Payments of qualified stated interest on a 2009 Series A Note are taxable to a U.S. Holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. Holder's regular method of tax accounting). A U.S. Holder of an OID Note must include original issue discount in income as ordinary income for U.S. federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of original issue discount included in income by the initial U.S. Holder of an OID Note is the sum of the daily portions of original issue discount with respect to such OID Note for each day during the taxable year (or portion of the taxable year) in which such U.S. Holder held such OID Note. The "daily portion" of original issue discount on any OID Note is determined by allocating to each day in any accrual period a ratable portion of the original issue discount allocable to that accrual period. An "accrual period" may be of any length and the accrual periods may vary in length over the term of the OID Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs either on the final day of an accrual period or on the first day of an accrual period. The amount of original issue discount allocable to each accrual period is generally equal to the difference between (i) the product of the OID Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and appropriately adjusted to take into account the length of the particular accrual period) and (ii) the amount of any qualified stated interest payments allocable to such accrual period. The "adjusted issue price" of an OID Note at the beginning of any accrual period is the sum of the issue price of the OID Note plus the amount of original issue discount allocable to all prior accrual periods minus the amount of any prior payments on the OID Note that were not qualified stated interest payments. Under these rules, U.S. Holders generally will have to include in income increasingly greater amounts of original issue discount in successive accrual periods.

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

U.S. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, original issue discount, *de minimis* original issue discount, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to original issue discount, subject to certain limitations and exceptions.

Market Discount

If a U.S. Holder purchases a 2009 Series A Note, for an amount that is less than its issue price (or, in the case of a subsequent purchaser, its stated redemption price at maturity) or for an amount that is less than its adjusted issue price as of the purchase date, such U.S. Holder will be treated as having purchased such 2009 Series A Note at a "market discount," unless the amount of such market discount is less than the specified *de minimis* amount.

Under the market discount rules, a U.S. Holder will be required to treat any partial principal payment on, or any gain realized on the sale, exchange, retirement or other disposition of, a 2009 Series A Note as ordinary income to the extent of the lesser of (i) the amount of such payment or realized gain or (ii) the market discount which has not previously been included in gross income and is treated as having accrued on such 2009 Series A Notes at the time of such payment or disposition. Market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the 2009 Series A Notes, unless the U.S. Holder elects to accrue market discount on the basis of semiannual compounding.

A U.S. Holder may be required to defer the deduction of all or a portion of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry a 2009 Series A Note with market discount until the maturity of such 2009 Series A Note or certain earlier dispositions, because a current deduction is only allowed to the extent the interest expense exceeds an allocable portion of market discount. A U.S. Holder may elect to include market discount in income currently as it accrues (on either a ratable or semiannual compounding basis), in which case the rules described above regarding the treatment as ordinary income of gain upon the disposition of the 2009 Series A Note and upon the receipt of certain cash payments and regarding the deferral of interest deductions will not apply. Generally, such currently included market discount is treated as ordinary income for U.S. federal income tax purposes. Such an election will apply to all debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the United States Internal Revenue Service ("IRS").

Premium

If a U.S. Holder purchases a 2009 Series A Note for an amount that is greater than the sum of all amounts payable on the 2009 Series A Note after the purchase date, other than payments of qualified stated interest, such U.S. Holder will be considered to have purchased the 2009 Series A Note with "amortizable bond premium" equal in amount to such excess. A U.S. Holder may elect to amortize such premium using a constant yield method over the remaining term of the 2009 Series A Note and may offset interest otherwise required to be included in respect of the 2009 Series A Note during any taxable year by the amortized amount of such excess for the taxable year. However, if the 2009 Series A Note may be optionally redeemed after the U.S. Holder acquires it at a price in excess of its stated redemption price at maturity, special rules would apply which could result in a deferral of the amortization of some bond premium until later in the term of the 2009 Series A Note. Any election to amortize bond premium applies to all taxable debt instruments acquired by the U.S. Holder on or after the first day of the first taxable year to which such election applies and may be revoked only with the consent of the IRS.

Disposition of a 2009 Series A Note

Except as discussed above, upon the sale, exchange or retirement of a 2009 Series A Note a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's tax basis in the 2009 Series A Note. A U.S. Holder's tax basis in a 2009 Series A Note generally will generally equal such U.S. Holder's initial investment in the 2009 Series A Note. Such gain or loss generally will be long-term capital gain or loss if the 2009 Series A Note has been held by the U.S. Holder at the time of disposition for more than one year.

Backup Withholding

Backup withholding of U.S. federal income tax may apply to payments made in respect of the 2009 Series A Notes to registered U.S. Holders and Puerto Rico U.S. Holders who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the 2009 Series A Notes to a U.S. Holder and a Puerto Rico U.S. Holder must be reported to the IRS, unless the U.S. Holder or Puerto Rico U.S. Holder is an exempt recipient or otherwise establishes an exemption.

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

Non-U.S. Holders

A Non-U.S. Holder who is an individual or corporation (or an entity treated as a corporation for federal income tax purposes) holding the 2009 Series A Notes on its behalf will not be subject to United States federal income taxes on payments of principal, interest or premium, if any, on a 2009 Series A Note, unless such Non-U.S. Holder is a direct or indirect 10% or greater shareholder of the Bank, a controlled foreign corporation related to the Bank or a bank receiving interest described in Section 881(c)(3)(A) of the U.S. Code. For the individual or corporation to qualify for the exemption from taxation, the Withholding Agent, as defined below, must have received a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the 2009 Series A Note,
- certifies that such owner is not a U.S. Holder, and
- provides the beneficial owner's name and the address of the beneficial owner's permanent residence.

A "Withholding Agent" is the last United States payor (or a non-U.S. payor who is a qualified intermediary, U.S. branch of a foreign person, or withholding foreign partnership) in the chain of payment prior to payment to a Non-U.S. Holder (which itself is not a Withholding Agent). Generally, this statement is made on an IRS Form W-8BEN ("W-8BEN"), which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. Notwithstanding the preceding sentence, a W-8BEN with a U.S. taxpayer identification number will remain effective until a change in circumstances makes any information on the form incorrect, provided that the Withholding Agent reports at least annually to the beneficial owner on IRS Form 1042-S. The beneficial owner must inform the Withholding Agent within 30 days of such change and furnish a new W-8BEN. A Non-U.S. Holder of a 2009 Series A Note that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding the 2009 Series A Notes on its own behalf may have substantially increased reporting requirements. In particular, in the case of 2009 Series A Notes held by a foreign partnership (or foreign trust), the partners (or beneficiaries) rather than the partnership (or trust) will be required to provide the certification discussed above, and the partnership (or trust) will be required to provide certain additional information.

A Non-U.S. Holder of a 2009 Series A Note whose income with respect to its investment in a 2009 Series A Note is effectively connected with the conduct of a U.S. trade or business would generally be taxed as if the holder was a U.S. Holder (and, if such Non-U.S. Holder of a 2009 Series A Note were a corporation, possibly subject to a 30% branch profits tax) provided the holder provides to the Withholding Agent an IRS Form W-8ECI.

Certain securities clearing organizations, and other entities who are not beneficial owners, may be able to provide a signed statement to the Withholding Agent. However, in such case, the signed statement may require a copy of the beneficial owner's W-8BEN (or the substitute form).

Generally, a Non-U.S. Holder will not be subject to U.S. federal income taxes on any amount which constitutes capital gain upon sale, exchange or retirement of a 2009 Series A Note, unless such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and such gain is derived from sources within the United States. Certain other exceptions may be applicable, and a Non-U.S. Holder should consult its tax advisor in this regard.

Future Developments

Future legislative proposals, if enacted into law, regulations, rulings or court decisions may cause interest on the 2009 Series A Notes to be subject, directly or indirectly, to U.S. federal income taxation or interest on the 2009 Series A Notes to be subject to state or local income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Further, legislation or regulatory actions and proposals may affect the economic value of federal or state tax exemptions or the market value of the 2009 Series A Notes. Prospective purchasers of the 2009 Series A Notes should consult their own tax advisors regarding any pending or proposed federal or State tax legislation, regulations, rulings or litigation.

ERISA CONSIDERATIONS

Each fiduciary of a pension, profit-sharing or other employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") (a "Plan"), should consider the fiduciary standards of ERISA in the context of the Plan's particular circumstances before authorizing an investment in the 2009 Series A Notes. Accordingly, among other factors, the fiduciary should consider whether the investment would satisfy the prudence and diversification requirements of ERISA and would be consistent with the documents and instruments governing the Plan.

In addition, certain parties to the offering may be considered a party in interest within the meaning of ERISA, or a disqualified person within the meaning of the U.S. Code, with respect to many Plans, as well as many individual retirement accounts and Keogh plans (also "Plans"). Prohibited transactions within the meaning of ERISA or the U.S. Code would likely arise, for example, if the 2009 Series A Notes are acquired by or with the assets of a Plan with respect to which one of the underwriters or certain of its affiliates is a party in interest, unless the 2009 Series A Notes are acquired pursuant to an exemption from the prohibited transaction rules. A violation of these prohibited transaction rules could result in an excise tax or other liabilities under ERISA and/or Section 4975 of the U.S. Code for such persons, unless exemptive relief is available under an applicable statutory or administrative exemption.

Under ERISA and various prohibited transaction class exemptions ("PTCEs") issued by the U.S. Department of Labor, exemptive relief may be available for direct or indirect prohibited transactions resulting from the purchase, holding or disposition of the 2009 Series A Notes. Those exemptions include PTCE 96-23 (for certain transactions determined by in-house asset managers), PTCE 95-60 (for certain transactions involving insurance company general accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 90-1 (for certain transactions involving insurance company separate accounts), PTCE 84-14 (for certain transactions determined by independent qualified asset managers), and the exemption under new Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the U.S. Code for certain arm's-length transactions with a person that is a party in interest solely by reason of providing services to Plans or being an affiliate of such a service provider (the "Service Provider Exemption").

Because one or more of the underwriters may be considered a party in interest with respect to many Plans, the 2009 Series A Notes may not be purchased by any Plan, any entity whose underlying assets include plan assets by reason of any Plan's investment in the entity (a "Plan Asset Entity") or any person investing plan assets of any Plan, unless such purchase is eligible for exemptive relief, including relief available under PTCE 96-23, 95-60, 91-38, 90-1, or 84-14 or the Service Provider Exemption, or such purchase is otherwise not prohibited. Any purchaser, including any fiduciary purchasing on behalf of a Plan, transferee or holder of the 2009 Series A Notes will be deemed to have represented, in its corporate and its fiduciary capacity, by its purchase of the 2009 Series A Notes that either (a) it is not a Plan or a Plan Asset Entity and is not purchasing such 2009 Series A Notes on behalf of or with plan assets of any Plan or with any assets of a governmental, church or foreign plan that is subject to any federal, state, local or foreign law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the U.S. Code or

(b) its purchase is eligible for exemptive relief or such purchase is prohibited by ERISA or Section 4975 of the U.S. Code (or in the case of a governmental, church or foreign plan, any substantially similar federal, state, local or foreign law).

Under ERISA, assets of a Plan may include assets held in the general account of an insurance company which has issued an insurance policy to such plan or assets of an entity in which the Plan has invested. Accordingly, insurance company general accounts that include assets of a Plan must ensure that one of the foregoing exemptions is available. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the 2009 Series A Notes on behalf of or with "plan assets" of any Plan consult with their counsel regarding the availability of exemptive relief under PTCE 96-23, 95-60, 91-38, 90-1 or 84-14 or the Service Provider Exemption.

Purchasers of the 2009 Series A Notes have exclusive responsibility for ensuring that their purchase of the 2009 Series A Notes does not violate the prohibited transaction rules of ERISA or the U.S. Code or any similar regulations applicable to governmental or church plans, as described above.

RATING

The Bank's long-term debt obligations are currently rated "BBB" by S&P. The 2009 Series A Notes have received a rating of "BBB" by S&P. There is no assurance that such rating will remain in effect for any given period of time or that it will not be revised downward or withdrawn entirely by S&P if circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market prices of the 2009 Series A Notes.

UNDERWRITING

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the 2009 Series A Notes from the Bank at an aggregate discount of $2,390,000 from the initial offering prices of the 2009 Series A Notes set forth or derived from information set forth on the inside cover of this Official Statement. The obligations of the Underwriters are subject to certain conditions precedent, and they will be obligated to purchase all the 2009 Series A Notes, if any such notes are purchased. The Underwriters may offer to sell the 2009 Series A Notes to certain dealers and others at prices lower than the initial public offering prices. The offering prices may be changed, from time to time, by the Underwriters.

LEGAL MATTERS

All legal matters incident to the authorization, issuance, sale and delivery of the 2009 Series A Notes are subject to the approval of Sidley Austin LLP, New York, New York, Bond Counsel to the Bank. The issuance of the 2009 Series A Notes is conditioned upon the delivery on their date of issuance of the approving opinion of Bond Counsel to the Bank substantially in the form attached to this Official Statement as *Appendix III* and the opinion of Fiddler González & Rodríguez, P.S.C. as Special Tax Counsel substantially in the form attached to this Official Statement as *Appendix II*. Certain legal matters will be passed for the Underwriters by their counsel, Fiddler González & Rodríguez, P.S.C., San Juan, Puerto Rico.

LEGAL INVESTMENT

The 2009 Series A Notes will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico, as required by law. In addition, the 2009 Series A Notes will be approved investments for insurance companies to qualify them to do business in the Commonwealth, as required by law. The 2009 Series A Notes will be eligible investments for insurance companies qualified to do business in the Commonwealth, international banking entities licensed under Act 52 of August 11, 1989 as amended, and savings and credit cooperatives organized under Act 255 of October 28, 2002, as amended.

CONTINUING DISCLOSURE

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the Securities and Exchange Commission (the "SEC"), the Bank and the Commonwealth will agree to the following:

1. Each of the Bank and the Commonwealth will agree to file, within 305 days after the end the fiscal year ending June 30, 2009, with the MSRB's Electronic Municipal Market Access system ("EMMA") (http://emma.msrb.org), core financial information and operating data for such fiscal year, including (i) its audited financial statements, prepared in accordance with generally accepted accounting principles in effect from time to time, and (ii) material historical quantitative data (including financial information and operating data) on the Bank and the Commonwealth, as the case may be, and information as to revenues, expenditures, financial operations and indebtedness of the Bank and the Commonwealth, as the case may be, in each case, generally found or incorporated by reference in this Official Statement; and

2. The Bank will agree to file, in a timely manner, (i) if on or before June 30, 2009, with each NRMSIR or with the MSRB and with each Commonwealth SID, or (ii) if on or after July 1, 2009 with EMMA, notice of any failure of the Bank to comply with paragraph 1 above and of the occurrence of any of the following events with respect to the 2009 Series A Notes, if, in the judgment of the Bank or its agent, such event is material:

a. principal and interest payment delinquencies;
b. non-payment related defaults;
c. unscheduled draws on debt service reserves reflecting financial difficulties;
d. unscheduled draws on credit enhancements reflecting financial difficulties;
e. substitution of credit or liquidity facility providers, or their failure to perform;
f. adverse opinions or events affecting the tax-exempt status of the 2009 Series A Notes;
g. modifications to rights of the holders (including Beneficial Owners) of the 2009 Series A Notes;
h. bond calls;
i. defeasances;
j. release, substitution, or sale of property securing repayment of the 2009 Series A Notes; and
k. rating changes.

Events (c), (d) and (e) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. However, events (c), (d) and (e) may not be applicable, since the terms of the 2009 Series A Notes do not provide for "debt service reserves" or "liquidity facility providers." In addition, with respect to the following events:

Events (d) and (e). The Bank does not undertake to provide any notice with respect to credit enhancement added after the initial offering of the 2009 Series A Notes, unless the Bank applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the 2009 Series A Notes, see *Tax Matters.*

Event (h). The Bank does not undertake to provide the above-described event notice of a mandatory scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms, dates and amounts of redemption are set forth in detail in this Official Statement under *"The 2009 Series A Notes —*

Redemption," the only open issue is which 2009 Series A Notes will be redeemed in the case of a partial redemption, notice of redemption is given to the Noteholders as required under the terms of the 2009 Series A Notes, and public notice of the redemption is given pursuant to Securities Exchange Act of 1934 Release No. 34-23856 of the SEC, even if the originally scheduled amounts are reduced by prior optional redemptions or purchases of 2009 Series A Notes.

The Commonwealth expects to provide the information described in paragraph 1 above by filing its first Official Statement or similar disclosure document that includes such information for the preceding fiscal year or, if no such Official Statement or similar disclosure document is issued by the 305-day deadline, by filing a separate document containing such information.

The Commonwealth has made similar continuing disclosure covenants in connection with prior bond issuances, and has complied with all such covenants, except as hereinafter noted. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2002 were filed after the Commonwealth's filing deadline of May 1, 2003 because of delays in finalizing such financial statements resulting from the implementation of GASB Statement No. 34 ("GASB 34"). The Commonwealth's audited financial statements for the fiscal year ended June 30, 2003 were also filed after the Commonwealth's filing deadline of April 30, 2004, because of delays in finalizing the financial statements of certain of the Commonwealth's reporting units due to the implementation of GASB 34. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2004, 2006 and 2007 were also filed after the Commonwealth's respective filing deadlines of May 1, 2005, 2007 and 2008, because various governmental agencies did not submit their audited financial statements to the central government's external auditors on time, thereby delaying submission of the Commonwealth's audited financial statements.

As of the date of this Official Statement, there is no Commonwealth SID, and the NRMSIRs are: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; Interactive Data Pricing and Reference Data, Inc., Attn: NRMSIR, 100 William Street, 15th Floor, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024. Effective July 1, 2009, continuing disclosure filings will no longer be permitted to be filed with these entities (which on said date will lose their status as NRMSIRs by order of the SEC), and instead must be filed with EMMA.

The Bank may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Bank, such other events are material with respect to the 2009 Series A Notes, but the Bank does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Bank and the Commonwealth acknowledge that their respective undertakings pursuant to the Rule described above is intended to be for the benefit of the Beneficial Owners of the 2009 Series A Notes, and shall be enforceable by any such Beneficial Owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Bank's or the Commonwealth's obligations thereunder.

No Beneficial Owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such Beneficial Owner shall have filed with the Bank and the Commonwealth written notice of any request to cure such breach, and the Bank and the Commonwealth shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, Puerto Rico for the equal benefit of all Beneficial Owners of the outstanding 2009 Series A Notes benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of any of the Covenants at issue. Moreover, Proceedings filed by Beneficial Owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 and 2A of Act No. 104, approved June 29, 1955, as amended, which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Bank or the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the 2009 Series A Notes, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interest of Beneficial Owners, as determined by persons unaffiliated with the Bank or the Commonwealth; or

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

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

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

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

LITIGATION

The Bank is involved in various lawsuits arising in the normal course of its business. With respect to pending and threatened litigation, as of June 30, 2008, the Bank has included in its financial statements accrued liabilities amounting to approximately $5.7 million for awarded and anticipated unfavorable judgments. This amount represents a probable liability with a fixed or expected due date, which would require future available financial resources for its payment. In the opinion of the Bank and its General Counsel, the ultimate liability in excess of amounts provided in the financial statements, if any, would not be significant.

MISCELLANEOUS

The foregoing summaries of or references to the Act, the 2009 Series A Notes, the Indenture and the other documents and agreements referred to herein and the summaries of or references to the various acts contained in the Commonwealth Report, are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions.

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

This Official Statement will be filed with each NRMSIR and with the Municipal Securities Rulemaking Board.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

By: /s/ Carlos M. García
President

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Government Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements and Required Supplementary Information as of and for the Year Ended June 30, 2008, and Independent Auditors' Report

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico, as of and for the year ended June 30, 2008, which collectively comprise the Bank's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the respective financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Government Development Bank for Puerto Rico, as of June 30, 2008, and the respective changes in financial position and, where applicable, respective 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, its agencies and instrumentalities amounted to approximately $3,997,471,000 or 32% of the Bank's total assets as of June 30, 2008. These loans are expected to be collected from appropriations from, bond issuances of, or revenues generated by the Commonwealth of Puerto Rico, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past six years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

The management's discussion and analysis on pages 2 to 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Government Development Bank for Puerto Rico's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

December 19, 2008

Stamp No. 2371637
affixed to original.

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, 2008. The information presented here should be read in conjunction with the basic financial statements, including the notes thereto.

1. FINANCIAL HIGHLIGHTS

- Assets and liabilities of the Bank at June 30, 2008 amounted to $12,316 million and $9,957 million, respectively, for net assets of $2,359 million or 19.2% of total assets.
- Net assets increased during the fiscal year by $87.5 million. The increase in net assets comprises $98.1 million from business-type activities, and a loss of $10.6 million from governmental activities.
- An early retirement program was approved and implemented at a cost of $40.2 million. Change in net assets excluding this item was $127.7 million.

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, 2008 amounted to $12,316 million and $9,957 million, respectively, for net assets of $2,359 million or 19.2% of total assets. Total assets had a moderate growth of $389 million or 3.26% over fiscal year 2007, but the composition of assets changed significantly. At June 30, 2008, total invested assets other than loans ($6,338 million) to total assets increased to 51.5% from 42% at June 30, 2007, while loans to total assets decreased to 44.4% from 52.3% as of June 30, 2007. The change in composition resulted from the repayment of various government sector loans as part of the Sales Tax Financing Corporation bond issuances Series 2007 A & B. (Refer to Note 5.)

From the $2,359 million in net assets, $1,986.4 million or 84.2% are unrestricted, $260 million or 11.0% are restricted for use in affordable housing programs, and the remaining $112.3 million or 4.8% are invested in capital assets, restricted for debt service, and 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 $200 million at June 30, 2008, before $92 million in net balances due to business-type activities. Total liabilities amounted to $25.3 million, for net assets of $83.1 million or 76.7% of total assets net of balances due to business-type activities. Net assets have been broken down into the amounts restricted for debt service of $30.5 million and for affordable housing programs of $84.9 million, and the unrestricted deficit of $32.3 million, which means that the restrictions existing 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 all its obligations.

Condensed financial information on assets, liabilities, and net assets of governmental activities as of June 30, 2008 and 2007 is shown below (amounts in thousands):

	June 30			
	2008	2007	Amount	Percent
Assets:				
Other assets	$ 346	$ 363	$ (17)	(4.7)%
Restricted:				
Cash and due from banks, and deposits placed with banks	54,896	47,556	7,340	15.4%
Due from federal government	20,937	18,823	2,114	11.2%
Investments and investment contracts	118,011	86,787	31,224	36.0%
Loans receivable — net	2,520	2,899	(379)	(13.1)%
Other assets	3,699	2,005	1,694	84.5%
Total assets before internal balances	200,409	158,433	41,976	26.5%
Internal balances	(92,028)	(31,606)	(60,422)	191.2%
Total assets	108,381	126,827	(18,446)	(14.5)%
Liabilities:				
Accounts payable and accrued liabilities	20,322	22,933	(2,611)	(11.4)%
Notes payable:				
Due in one year	151	39	112	287.2%
Due in more than one year	4,811	10,160	(5,349)	(52.6)%
Total liabilities	25,284	33,132	(7,848)	(23.7)%
Net assets:				
Restricted for debt service	30,523	25,504	5,019	19.7%
Restricted for affordable housing programs	84,905	78,596	6,309	8.0%
Unrestricted deficit	(32,331)	(10,405)	(21,926)	210.7%
Total net assets	$ 83,097	$ 93,695	$ (10,598)	(11.3)%

Investments and investment contracts amounted to $118 million and account for the majority of assets held by governmental activities. These investments, together with cash and due from banks, and deposits placed with banks of $54.9 million are held to provide the funds necessary for the execution of the various affordable housing programs managed by the Puerto Rico Housing Finance Authority (the "Housing Finance Authority") and for debt service. Governmental activities also have a balance due from the federal government of $20.9 million that is related to the reimbursement of eligible expenses incurred for the New Secure Housing Program.

The most significant liabilities of governmental activities are the notes payable amounting to $5.0 million at June 30, 2008, down by $5.2 million or 51.3%, from $10.2 million at June 30, 2007.

Condensed financial information on expenses, program and general revenues, and changes in net assets of governmental activities for the years ended June 30, 2008 and 2007, is shown below (in thousands):

	Year ended June 30, 2008		
	General Government	Housing Assistance Programs	Total
Expenses	$ 5,165	$ 144,438	$ 149,603
Program revenues:			
Charges for services — financing and investment		10,228	10,228
Operating grants and contributions	-	133,012	133,012
Net expenses	$ (5,165)	$ (1,198)	(6,363)
General revenues — unrestricted income			
Transfers — net			(4,235)
Change in net assets			(10,598)
Net assets — beginning of year			93,695
Net assets — end of year			$ 83,097

	Year ended June 30, 2007		
	General Government	Housing Assistance Programs	Total
Expenses	$ 4,514	$ 165,056	$ 169,570
Program revenues:			
Charges for services — financing and investment		10,829	10,829
Operating grants and contributions	-	199,284	199,284
Net (expenses) revenues	$ (4,514)	$ 45,057	40,543
Transfers — net			27,444
Change in net assets			67,987
Net assets — beginning of year			25,708
Net assets — end of year			$ 93,695

4. GOVERNMENTAL FUND RESULTS

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

New Secure Housing Program ("Nuevo Hogar Seguro") — This fund is used to account for the resources available under the New Secure Housing Program to provide housing assistance benefits for specific participants that were affected by Hurricane Georges in 1998 or that live in hazard prone areas. This fund receives resources from the federal government, under a Federal Emergency Management Agency program, intended to provide financial resources to eligible participants for the relocation or reconstruction of their homes. The Housing Finance Authority restructured on a long term basis its existing $50 million revolving credit facility with GBD to complete the new secure housing program by December 2009. The obligation will require debt service payments of approximately $67.6 million over a period of 20 years.

No revenues from the federal government or from appropriations of the Commonwealth of Puerto Rico (the "Commonwealth") were recognized during 2008 compared to $4.6 million and $0.2 million recognized in 2007, respectively. Construction costs paid during the years ended June 30, 2008 and 2007, amounted to approximately $6.1 million and $13.2 million, respectively, which are presented as housing assistance program expenditures in the accompanying statement of revenues, expenditures, and changes in fund balances — governmental funds. The decrease in eligible expenditures is in direct relation to the reduced number of projects being developed and financed through this fund.

The Key for Your Home Program — This fund accounts for the subsidy to low and moderate-income families of costs directly related to the purchase and rehabilitation of housing units. Housing Finance Authority financed the continuation of this program with the transfer of $38.8 million from the Affordable

Housing Mortgage Subsidy Program (AHMSP) - Law 124 governmental fund. This amount represents a portion of the amounts released from the advance refunding transaction executed last fiscal year. Act No. 124, the enabling legislation pursuant to which the AHMSP was created, allows for the transfer of fund surplus, among other permissible uses, to increase the Key for Your Home Program fund.

Total revenues during fiscal year 2008 and 2007 were $3.7 million and $2.9 million, respectively. Revenues arose principally from penalty reimbursements received from early payment of mortgages and interest income on deposits placed with banks. The fund had expenditures of $12.8 million and $18.1 million in 2008 and 2007, respectively.

HUD Programs — This fund accounts for the U.S Housing Act Section 8 programs administered by the Housing Finance Authority under the authorization of the U.S. Department of Housing and Urban Development (HUD). Presently, the Housing Finance Authority operates four programs whereby low-income families receive directly or indirectly subsidies to pay for their rent. The housing vouchers program enables families to obtain rental housing in a neighborhood of their choice. The other programs are project-based subsidies whereby housing developers are given incentives to keep their properties available for certain markets. The expenditures of the HUD programs decreased $4.2 million from $119.8 million in 2007 to $115.6 million in 2008. The expenditures in the housing vouchers program increased $1.3 million because 197 additional vouchers were awarded when compared to the previous year. In the moderate rehabilitation program, two projects were transferred directly to HUD causing a decrease of $0.3 million versus fiscal year 2007. The decrease in the new construction program of $25 million was mostly related to the net increase of $20 million in the PBCA program because 19 new construction projects were incorporated to the PBCA program. In addition, 14 existing PBCA program projects were transferred under the direct supervision of HUD accounting for the additional decrease in the PBCA program compared to the prior year.

AHMSP Stages 7, 8 and 9 — The Stage 7 is a major fund and Stages 8 and 9 are nonmajor funds but management has elected to present these separately in the balance sheet and statement of revenues, expenditures and changes in fund balance to be consistent with their presentation in prior years. Following is an analysis of the operations of these funds:

These funds' operating objective is to provide funds for low income families to be used either for the down payment on mortgages or mortgage subsidy payments. The funds receive appropriations from the Commonwealth to fund these payments.

AHMSP Stage 7 — Expenditures exceeded revenues by $3.5 million for the year ended June 30, 2008. This is attributed to appropriations from the Commonwealth expected to be received for the payment of the annual debt service.

AHMSP Stage 8 — This fund had a decrease in fund balance of $95.7 thousand resulting from revenues of $0.84 million reduced for total expenditures of $0.86 million and transfers out of $79.5 thousand.

AHMSP Stage 9 — During the year ended June 30, 2008, the fund received an appropriation from the Commonwealth in the amount of $5.4 million. These funds were used to repay advances from the Bank that were used to fund subsidy escrows.

Business-Type Activities

Condensed financial information on assets, liabilities, and net assets as of June 30, 2008 and 2007, is presented below (amounts in thousands):

	June 30,		Change	
	2008	2007	Amount	Percent
Assets:				
Cash and due from banks	$ 81,922	$ 29,688	$ 52,234	175.9%
Federal funds sold	316,620	945,500	(628,880)	(66.5)%
Deposits placed with banks	1,566,118	1,881,810	(315,692)	(16.8)%
Investments and investment contracts	4,287,850	2,048,405	2,239,445	109.3%
Loans receivable — net	5,460,899	6,238,862	(777,963)	(12.5)%
Interest and other receivables	262,630	472,506	(209,876)	(44.4)%
Capital assets	27,397	24,525	2,872	11.7%
Other assets	112,150	127,355	(15,205)	(11.9)%
Internal balances	92,028	31,606	60,422	191.2%
Total assets	12,207,614	11,800,257	407,357	3.5%
Liabilities:				
Deposits:				
Demand	2,720,148	2,013,883	706,265	35.1%
Certificates of deposit	4,283,385	3,444,110	839,275	24.4%
Certificates of indebtedness	11,800	11,800	-	0.0%
Securities sold under agreements to repurchase	687,200	455,000	232,200	51.0%
Commercial paper	500	575,861	(575,361)	(99.9)%
Accrued interest payable	27,909	47,742	(19,833)	(41.5)%
Accounts payable, accrued liabilities, and other liabilities	94,959	113,009	(18,050)	(16.0)%
Bonds and notes payable:				
Due in one year	156,652	187,678	(31,026)	(16.5)%
Due in more than one year	1,949,435	2,773,629	(824,194)	(29.7)%
Total liabilities	9,931,988	9,622,712	309,276	3.2%
Net assets:				
Invested in capital assets	27,397	24,525	2,872	11.7%
Restricted for:				
Affordable housing programs	175,073	146,691	28,382	19.3%
Mortgage loan insurance	54,386	49,135	5,251	10.7%
Unrestricted	2,018,770	1,957,194	61,576	3.1%
Total net assets	$ 2,275,626	$ 2,177,545	$ 98,081	4.5%

Federal Funds Sold and Deposits Placed with Banks — The Bank reduced its federal funds sold by $628.9 million or 66.5%, from $945.5 million at June 30, 2007 to $316.6 million at June 30, 2008, and its deposits placed with banks by 16.8%, from $1,882 million to $1,566 million. The Bank increased its investments to obtain a better yield.

Investments and Investment Contracts — Investments and investment contracts held in business-type activities amounted to $4,288 million at June 30, 2008. This amount also represents an increase of $2,239 million or 109% when compared to the prior year balance of $2,048 million.

The investment portfolio comprised 35.1% of the total assets of the Bank's business-type activities at June 30, 2008, compared to 17.4% at the close of fiscal year 2007. Within the investment securities portfolio, $1,653 million at June 30, 2008 and $1,253 million at June 30, 2007 were restricted or pledged as collateral or payment source for specific borrowings.

Loans Receivable — Net loans receivable of $5,461 million accounted for 44.7% of total assets of business-type activities at June 30, 2008 (52.9% in 2007). The decrease of $778 million in net loans was driven by a decrease in public sector loans of approximately $835 million.

Act No. 91 of the Legislature of the Commonwealth of Puerto Rico, as amended, created the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation") for the purpose of financing the payment, retirement or defeasance of certain outstanding obligations of the Commonwealth at June 30, 2006, payable to the Bank and the Public Finance Corporation. Debt payable from legislative appropriations is designated as extra-constitutional debt. As of June 30, 2008 and 2007, the Bank had $1.1 billion and $2.8 billion, respectively, of extra-constitutional debt in its public loans portfolio. This decrease was due to the issuance on July 31, 2007, by the Sales Tax Corporation of the 2007 Series A and B bonds from whose proceeds the Bank collected $1.7 billion or 61% of said loans. (Refer to Note 5 of the basic financial statements.)

The creation of the "Municipal Redemption Fund" that is nourished from part of the Municipal Sales Tax triggered a growth in loans to the municipalities by increasing their debt margin capacity. As of June 30, 2008, loans to the public sector include $991 million of loans to the municipalities, an increase of $401 million, or 68%, over prior fiscal year balance of $590.5 million. At June 30, 2008, $270 million of municipal loans are payable from the Municipal Redemption Fund.

Private sector loans outstanding at June 30, 2008 and 2007 amounted to $474 million and $418 million, respectively, net of an allowance for loan losses of $31 million at the end of both years. Private sector loans mainly include loan facilities for the housing and tourism sectors through some component units of the Bank.

Capital Assets — Capital assets, net of accumulated depreciation and amortization, amounted to $27.4 million at June 30, 2008, an increase of $2.9 million from prior year. The increase was mainly due to the relocation costs of a component unit and the implementation of new software. See Note 7 to the basic financial statements for additional information on capital assets.

Other Assets — Other assets amounted to $112.2 million at June 30, 2008, a decrease of $15.2 million from prior year, resulting from the sale of a land with a book value of $13 million at a $4.3 million gain.

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 $1,546 million, from $5,458 million at June 30, 2007 to $7,004 at June 30, 2008.

Securities Sold Under Agreement to Repurchase — Securities sold under agreements to repurchase increased by $232 million or by 51% from $455 million to $687 million at June 30, 2008. These obligations partially replaced commercial paper as a source of funding.

Commercial Paper — Increased cost and the cancellation of loans funded with commercial paper reduced its balance to a minimum of $500,000, a decrease of 99.9%, from $575.9 million at June 30, 2007.

Other Borrowed Funds — Bonds and notes payable decreased by 28.9% from $2,961 million at June 30, 2007 to $2,106 million at June 30, 2008. This decrease is the result of the annual debt service of $188 million, and the cancellation of the $885 million Senior Notes, Series 2006A. The notes were called after various swap agreements matched to the notes were called by the counterparties because of market conditions. (Refer to Note 12).

Condensed financial information on expenses, program revenues, and changes in net assets for business-type activities for the years ended June 30, 2008 and 2007 is presented below (in thousands):

	Year ended June 30, 2008			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$381,694	$35,759	$453,163	$ 107,228
Housing Finance Authority	92,053	10,905	97,610	16,462
Tourism Development Fund	16,159	3,408	21,377	8,626
Public Finance Corporation	7,165		7,234	69
Capital Fund	68	59	(4,835)	(4,844)
Development Fund	(5,099)	58	1,498	6,655
Other nonmajor	182	-	75	(107)
Total	$492,222	$50,189	$576,122	134,089
Special items — Early Retirement Program				(40,243)
Transfers to governmental activities				4,235
Change in net assets				98,081
Net assets — beginning of year				2,177,545
Net assets — end of year				$2,275,626

	Year ended June 30, 2007			
		Program revenues		
		Charges for services		
Activity	Expenses	Fees, commissions, and other	Financing and investment	Net revenues (expenses)
GDB Operating Fund	$500,702	$15,137	$565,727	$ 80,162
Housing Finance Authority	85,318	12,203	106,599	33,484
Tourism Development Fund	11,955	3,278	24,533	15,856
Public Finance Corporation	20,404	10	20,256	(138)
Capital Fund	73	13	13,147	13,087
Development Fund	10,095	34	1,927	(8,134)
Other nonmajor	168	-	111	(57)
Total	$628,715	$30,675	$732,300	134,260
Transfers to governmental activities				(27,444)
Change in net assets				106,816
Net assets — beginning of year				2,070,729
Net assets — end of year				$2,177,545

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 $453.2 million from its loan and investment portfolios, and $35.8 million in other charges for services. These revenues covered $381.7 million in expenses for net revenues from GDB Operating Fund of $107.2 million, surpassing the net revenues of any other activity.

The Housing Finance Authority activities were the second largest contributor to the change in net assets with net revenues of $16.5 million. Other contributors to the change in net assets were the Tourism Development Fund and the Development Fund with net revenues of $8.6 million and $6.7 million, respectively.

Enterprise Funds — Following is a discussion of the most significant changes in the Bank's enterprise funds. Our main focus will be on the 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 $10,896 million at June 30, 2008, compared to $10,699 million at June 30, 2007. This represents an increase of $197 million, which was mainly driven by net decreases in loans to the public sector of approximately $835 million and in accrued interest receivable of $210 million while invested assets increased by $1,176 million. As previously discussed, the Bank received from the Sales Tax Corporation a payment of $1.7 billion for loans to the public sector that constitutes extra-constitutional debt. (Refer to note 5.)

With the proceeds from the collection of loans, the Bank cancelled most of its related funding, such as commercial paper ($575 million net decrease). However, deposits grew considerably by $1,532 million, or 25%, from $6,148 million at June 30, 2007 to $7,680 million related to the deposit of amounts to cover the Commonwealth's debt service requirements.

Change in net assets of the GDB Operating Fund decreased 5.4% from $80.2 million in 2007 to $75.8 million in 2008. 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, decreased by $15 million or 11.8%, from $127.6 million in 2007 to $112.5 million in 2008. During fiscal year 2008, lower interest rates prevailed affecting almost proportionately both interest income and expense. However, the fair value of investments decreased by $11.6 million or 73.4%, from $15.8 million in 2007 to $4.2 in 2008.

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

In 2007, after years of litigation, the Bank recognized an allowance of $11.8 million for a loan to a municipality due to uncertainties regarding its collection (Refer to note 5 to the basic financial statements). For fiscal year 2008, management believes that there is no need for further provisions for either the loan portfolio or the guarantees and letters of credit. At June 30, 2008 management expects that the negotiation with the municipality will result in a favorable outcome to the Bank.

(c) Noninterest Income

Fiscal agency fees constitutes the main component of non-interest income. The intense activity during the year in both volume and number of bond issuances where the Bank acted as fiscal agent increased this income item from $8.8 million to $20.2 million or by $11.4 million. Also, the sale of a land produced a gain of $4.3 million contributed to the favorable variance of $20.6 million in 2008 as compared to the non-interest income for 2007 of $15.1 million.

(d) Noninterest Expenses

Noninterest expense decreased $9 million during fiscal year 2008, but basically because 2007 figures were higher as a result of the disposition of certain capital assets and a provision for other assets.

(e) Special Item

During fiscal year 2008, the Bank's board of directors authorized and granted an early retirement program at a cost of $31.4 million. Excluding this item, the change in net assets of the Bank was $107.2 million, $27 million over previous year results of $80.2 million.

Housing Finance Authority — Net assets of the Housing Finance Authority increased $12 million from $534 million as of June 30, 2007 to $546 million as of June 30, 2008. The Housing Finance Authority had total revenues of $109 million for the year ended June 30, 2008 a decrease of $10 million from 2007. This decrease is mainly due to less favorable market conditions, which resulted in a loss in the fair value of the investments of $.8 million in 2008 from a gain of $2 million in 2007, and to a decrease of $6 million in investment and interest income resulting from lower average balances in investments. In addition, non-interest income decreased by $1 million due to a reduction in commitment and other fees, mainly related to the fees earned on the administration of the HUD Programs, and to a lower gain on sale of housing program loans. Total operating expenses of the Housing Finance Authority increased from $85 million in 2007 to $92 million in 2008. The main factor of the increase of $7 million was the collection of an advance to the Puerto Rico Department of Housing in 2007 which resulted in the reversal of a $15 million allowance for losses that had been established for this advance in 2006. Also, interest expense decreased by $3 million due to a lower average balance of borrowings as a result of annual repayments.

Capital Fund — The Capital Fund's total net assets decreased $4.8 million, which represents a negative variance of $17.9 million when compared to the prior year increase of $13.1 million. The results of the Capital Fund are determined by the fluctuations of the investment market and the resulting change in fair value of investments that in 2008 decreased by approximately $17.9 million.

Development Fund — The Development Fund net revenues were mostly the result of a $6.4 million credit to the reserve for legal claims due to settlement of an outstanding case.

Tourism Development Fund — Total assets increased to $393.6 million from $356.6 million in 2007. The growth in assets is related to the increase in loans. The Tourism Development Fund mostly finance its loan portfolio through facilities obtained from the Bank. Notes payable due to the Bank at year-end were $213 million for an increase of $35 million from June 30, 2007. At June 30, 2008, outstanding guarantees and letters of credit of the Tourism Development Fund amounted to $128.8 million. Net assets of the Tourism Development Fund increased $8.6 million during the year to $149.9 million at June 30, 2008.

Public Finance Corporation — Change in net assets increased to $69,000 from a loss of approximately $137,600 in 2007. The most significant activity of the Corporation was in the reduction of its no-commitment debt, from $4.3 billion as of June 30 2007 to $1.72 billion as of June 30, 2008, due to the payments received from the proceeds of the Sales Tax Corporation bond issuances of 2007, discussed above. (Refer to Note 17.)

5. DEBT

Total bonds and notes outstanding at year-end amounted to $2,106 million of which $1,150 million are payable from restricted assets held by the Housing Finance Authority. There were $1,084 million in new bonds and notes issued during the year on the enterprise funds. Repayments and other reductions in debt outstanding aggregated $1,939 million for a net reduction of $855 million. See Note 12 to the basic financial statements for additional information on debt activities during the year.

6. SUBSEQUENT EVENTS

The items below are further discussed in Note 20 to the financial statements.

Adjustable Refunding Bonds — On August 1, 2008, the Bank repurchased the $267 million outstanding balance of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. The Bank expects to reissue these bonds at a fixed rate during fiscal year 2009.

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

Bank's Exposure to American International Group — The Bank, in connection with the issuance of certain bonds issued by the Housing Finance Authority, has entered into certain nonparticipating investment contracts with counterparties that are rated, at the time of the transaction, in accordance with the Bank's investment policies (see Note 4). At June 30, 2008, the Bank had nonparticipating investment contracts outstanding with AIG Matched Funding Corp. (AIGMF) amounting to $188,931,032.

Subsequent to June 30, 2008, the credit rating of AIGMF was lowered. The Bank is currently evaluating, with its financial advisors and legal counsel, various alternatives for these nonparticipating investment contracts, including but not limited to, unwinding these nonparticipating investment contracts and defease the related bonds issued by the Housing Finance Authority.

Commonwealth's Tax Receivable Anticipation Bonds — On September 9, 2008, October 10, 2008, October 17, 2008, November 26, 2008 and December 1, 2008, the Bank purchased an aggregate principal amount of $1 billion of Tax Receivable Anticipation Bonds of the Commonwealth of Puerto Rico, Series 2008A issued in four separate tranches in the amounts of $300,000,000, $50,000,000, $50,000,000, $250,000,000, and $350,000,000, respectively. These bonds are payable from the revenue generated from the collections of certain Commonwealth's delinquent tax receivables.

7. 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
AS OF JUNE 30, 2008

ASSETS	Governmental Activities	Business-type Activities	Total
Cash and due from banks	$ -	$ 60,212,101	$ 60,212,101
Federal funds sold		316,620,000	316,620,000
Deposits placed with banks		1,533,888,304	1,533,888,304
Investments and investment contracts		2,635,014,277	2,635,014,277
Loans receivable — net		5,454,425,371	5,454,425,371
Accrued interest receivable		259,623,379	259,623,379
Internal balances	(92,028,224)	92,028,224	-
Restricted assets:			
Cash and due from banks	5,019,954	21,709,954	26,729,908
Deposits placed with banks	49,876,142	32,229,371	82,105,513
Due from federal government	20,936,674		20,936,674
Investments and investment contracts	118,011,025	1,652,836,161	1,770,847,186
Loans receivable — net	2,519,927	6,473,662	8,993,589
Interest and other receivables	3,073,356	3,006,193	6,079,549
Real estate available for sale	625,990	1,354,503	1,980,493
Other assets		8,211,544	8,211,544
Real estate available for sale		58,117,974	58,117,974
Capital assets:			
Land		10,970,990	10,970,990
Other capital assets		16,425,851	16,425,851
Other assets	346,407	44,465,576	44,811,983
TOTAL	108,381,251	12,207,613,435	12,315,994,686
LIABILITIES			
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:			
Demand		2,720,148,159	2,720,148,159
Certificates of deposit:			
Due within one year		4,150,933,733	4,150,933,733
Due in more than one year		132,451,716	132,451,716
Securities sold under agreements to repurchase:			
Due within one year		207,200,000	207,200,000
Due in more than one year		480,000,000	480,000,000
Commercial paper		500,000	500,000
Accrued interest payable		24,955,038	24,955,038
Accounts payable and accrued liabilities:			
Due within one year		60,127,849	60,127,849
Due in more than one year		4,816,117	4,816,117
Allowance for losses on guarantees and letters of credit:			
Due within one year		209,786	209,786
Due in more than one year		2,903,609	2,903,609
Participation agreement payable		26,000,000	26,000,000
Certificates of indebtedness - due in more than one year		11,800,000	11,800,000
Bonds payable - due in more than one year		267,000,000	267,000,000
Notes payable:			
Due within one year	150,768	93,204,456	93,355,224
Due in more than one year	4,811,237	595,624,977	600,436,214
Liabilities payable from restricted assets:			
Accrued interest payable	266,090	2,953,640	3,219,730
Accounts payable and accrued liabilities — due within one year	20,055,607	459,746	20,515,353
Allowance for losses on mortgage loan insurance		441,652	441,652
Bonds and mortgage-backed certificates payable:			
Due within one year		63,447,231	63,447,231
Due in more than one year	-	1,086,809,893	1,086,809,893
Total liabilities	25,283,702	9,931,987,602	9,957,271,304
NET ASSETS (DEFICIT)			
Invested in capital assets		27,396,841	27,396,841
Restricted for:			
Debt service	30,522,788		30,522,788
Affordable housing programs	84,905,875	175,073,146	259,979,021
Mortgage loan insurance		54,385,644	54,385,644
Unrestricted net assets (deficit)	(32,331,114)	2,018,770,202	1,986,439,088
Total net assets	$ 83,097,549	$ 2,275,625,833	$ 2,358,723,382

See accompanying notes to basic financial statements.

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

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues			Net Revenues (Expenses) and Changes in Net Assets		
	Expenses	Charges for Services - Fees, Commissions, and Others	Charges for Services - Financing and Investment	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/programs:							
Governmental activities:							
General government	$ 5,165,094	$ -	$ -	$ -	$ (5,165,094)	$ -	$ (5,165,094)
Housing subsidy programs	144,437,542		10,227,672	133,012,042	(1,197,828)		(1,197,828)
Total governmental activities	149,602,636	-	10,227,672	133,012,042	(6,362,922)	-	(6,362,922)
Business-type activities:							
GDB Operating Fund	381,693,949	35,758,672	453,162,807			107,227,530	107,227,530
Housing Finance Authority	92,053,322	10,904,566	97,610,436			16,461,680	16,461,680
Tourism Development Fund	16,158,839	3,408,443	21,376,701			8,626,305	8,626,305
Public Finance Corporation	7,165,039		7,234,087			69,048	69,048
Capital Fund	67,758	58,516	(4,834,646)			(4,843,888)	(4,843,888)
Development Fund	(5,098,713)	58,176	1,497,737			6,654,626	6,654,626
Other nonmajor	181,592		75,021			(106,571)	(106,571)
Total business-type activities	492,221,786	50,188,373	576,122,143	-	-	134,088,730	134,088,730
Total	$ 641,824,422	$ 50,188,373	$ 586,349,815	$ 133,012,042	(6,362,922)	134,088,730	127,725,808
Special item - early retirement program						(40,242,716)	(40,242,716)
Transfers — net					(4,234,853)	4,234,853	-
Total general revenues and transfers					(4,234,853)	(36,007,863)	40,242,716
Change in net assets					(10,597,775)	98,080,867	87,483,092
Net assets — beginning of year					93,695,324	2,177,544,966	2,271,240,290
Net assets — end of year					$ 83,097,549	$ 2,275,625,833	$ 2,358,723,382

See accompanying notes to basic financial statements.

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

BALANCE SHEET—GOVERNMENTAL FUNDS
AS OF JUNE 30, 2008

	Affordable Housing Mortgage Subsidy Program-Stage 7	Affordable Housing Mortgage Subsidy Program-Stage 8	Affordable Housing Mortgage Subsidy Program – Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Eliminations	Total Governmental Funds
ASSETS:									
Due from other funds	$ -	$ -	$ -	$ 449,936	$ 30,000	$ -	$ 13,095,155	$ (11,581,631)	$ 1,993,460
Restricted:									
Cash and due from banks	565	1,990	57			5,016,481	861		5,019,954
Deposits placed with banks					37,376,801		12,499,341		49,876,142
Due from federal government				20,936,674					20,936,674
Investments and investment contracts	21,664,576	1,794,399	13,086,036				81,466,014		118,011,025
Loans receivable — net							2,519,927		2,519,927
Due from other funds	2	13,489,597		398,884	1,186,830	656,852	9,034,540		24,766,705
Interest and other receivables	85,389	9,390	5,889	82,086	394,553	2,074,867	421,182		3,073,356
Real estate available for sale							625,990		625,990
TOTAL	$ 21,750,532	$ 15,295,376	$ 13,091,982	$ 21,867,580	$ 38,988,184	$ 7,748,200	$ 119,663,010	$ (11,581,631)	$226,823,233
LIABILITIES:									
Due to other funds	$ 69,505,223	$ -	$ 354,186	$ 44,189,766	$ 117,190	$ 736,688	$ 15,466,967	$ (11,581,631)	$ 118,788,389
Restricted:									
Accounts payable and accrued liabilities	491,298	174,792	92,945	5,315,332	6,043,380	7,011,512	926,348		20,055,607
Deferred revenue				21,018,760					21,018,760
Total liabilities	69,996,521	174,792	447,131	70,523,858	6,160,570	7,748,200	16,393,315	(11,581,631)	159,862,756
FUND BALANCES (DEFICIT):									
Reserved for:									
Long-term loans receivable and other assets							3,145,917		3,145,917
Debt service							27,727,295		27,727,295
Unreserved — special revenue funds	(48,245,989)	15,120,584	12,644,851	(48,656,278)	32,827,614		72,396,483		36,087,265
Total fund balances (deficit)	(48,245,989)	15,120,584	12,644,851	(48,656,278)	32,827,614		103,269,695		66,960,477
TOTAL	$ 21,750,532	$ 15,295,376	$ 13,091,982	$ 21,867,580	$ 38,988,184	$ 7,748,200	$ 119,663,010	$ (11,581,631)	$226,823,233

Amounts reported for governmental activities in the statement of net assets are different because:	
Total fund balance	$ 66,960,477
Deferred bond issue costs that are recorded as expenditures in governmental funds, but are capitalized in the government-wide financial statements	346,407
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and therefore are not reported in the funds	(4,962,005)
Accrued interest payable not due and payable in the current period	(266,090)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds	21,018,760
Net assets of governmental activities	$ 83,097,549

See accompanying notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2008

	Affordable Housing Mortgage Subsidy Program-Stage 7	Affordable Housing Mortgage Subsidy Program-Stage 8	Affordable Housing Mortgage Subsidy Program – Stage 9	New Secure Housing Program	The Key for Your Home Program	HUD Programs	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:								
Commonwealth appropriations for repayment of bonds and for housing assistance programs	$ 5,805,790	$ -	$ 5,354,014	$ -	$ -	$ -	$ 529,312	$ 11,689,116
Intergovernmental — federal government						115,587,371		115,587,371
Interest on investments and deposits placed with banks	1,485,685	823,727	548,150	14,910	1,162,433		5,800,649	9,835,554
Interest income on loans							323,063	323,063
Net increase in fair value of investments		19,445					49,610	69,055
Net gain on sale of real estate available for sale							507,337	507,337
Other				281,031	2,550,737		283,098	3,114,866
Total revenues	7,291,475	843,172	5,902,164	295,941	3,713,170	115,587,371	7,493,069	141,126,362
EXPENDITURES:								
Current:								
General government and other	7,792	9,510				4,993,847	153,945	5,165,094
Housing assistance programs	1,919,216	849,825	837,266	6,080,054	12,790,626	110,593,524	5,520,420	138,590,931
Credit for loan losses							(246,669)	(246,669)
Debt service:								
Principal	5,236,530							5,236,530
Interest	3,596,035		44,198	1,960,423			779,294	6,379,950
Total expenditures	10,759,573	859,335	881,464	8,040,477	12,790,626	115,587,371	6,206,990	155,125,836
Excess (deficiency) of revenues over (under) expenditures	(3,468,098)	(16,163)	5,020,700	(7,744,536)	(9,077,456)	-	1,286,079	(13,999,474)
Other financing sources (uses):								
Transfers-in					38,850,091		39,041,064	77,891,155
Transfers-out		(79,534)	(546,956)				(81,499,518)	(82,126,008)
Total other financing sources (uses)	-	(79,534)	(546,956)	-	38,850,091	-	(42,458,454)	(4,234,853)
Net change in fund balance	(3,468,098)	(95,697)	4,473,744	(7,744,536)	29,772,635	-	(41,172,375)	(18,234,327)
Fund balances (deficit) — beginning of year	(44,777,891)	15,216,281	8,171,107	(40,911,742)	3,054,979		144,442,070	85,194,804
Fund balances (deficit) — end of year	$ (48,245,989)	$ 15,120,584	$ 12,644,851	$ (48,656,278)	$ 32,827,614	$ -	$ 103,269,695	$ 66,960,477

See accompanying notes to basic financial statements.

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:	
Net change in fund balances — total governmental funds	$ (18,234,327)
Repayment of the principal of long-term debt consumes the current financial resources of governmental funds	5,236,530
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	303,170
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	2,113,352
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	(16,500)
Change in net assets of governmental activities	$ (10,597,775)

See accompanying 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, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
ASSETS									
Current assets:									
Cash and due from banks	$ 59,818,358	$ 4,374,167	$ 11,368,083	$ 1,259,286	$ -	$40,238,533	$2,404,865	$ (59,251,191)	$ 60,212,101
Federal funds sold	316,620,000								316,620,000
Deposits placed with banks	1,505,000,000	84,096,979	45,000,000					(100,208,675)	1,533,888,304
Investments and investment contracts	2,007,599,088	25,500	47,851,208		320,563				2,055,796,359
Loans receivable — net	802,644,635	7,329,038	1,053,000	2,612,187				(3,485,186)	810,153,674
Accrued interest receivable	258,507,954	1,486,716	1,607,585	6,297,786	635	54,855	2,689	(8,334,841)	259,623,379
Other current receivables	21,794,518	4,695,168	13,124			26,748			26,529,558
Other current assets	1,017,745	182,803	289,849						1,490,397
Due from governmental funds	112,101,375	6,687,012							118,788,387
Restricted:									
Cash and due from banks		22,230,693						(520,739)	21,709,954
Deposits placed with banks		359,570,687						(327,341,316)	32,229,371
Investments and investment contracts	34,996,500	341,836,677							376,833,177
Loan receivable — net		616,236							616,236
Accrued interest receivable		13,759,585						(10,753,392)	3,006,193
Total current assets	5,120,100,173	846,891,261	107,182,849	10,169,259	321,198	40,320,136	2,407,554	(509,895,340)	5,617,497,090
Noncurrent assets:									
Restricted:									
Investments and investment contracts	705,854,918	759,079,097						(188,931,031)	1,276,002,984
Loans receivable — net		5,857,426							5,857,426
Real estate available for sale		1,354,503							1,354,503
Other assets		8,211,544							8,211,544
Investments and investment contracts	583,317,273	17,628,800	21,400,179		82,438,465	3,378,700		(128,945,499)	579,217,918
Loans receivable — net	4,399,777,543	191,914,708	265,049,341	101,915,460				(314,385,355)	4,644,271,697
Real estate available for sale	56,323,019	1,794,955							58,117,974
Capital assets:									
Land	10,970,990								10,970,990
Other capital assets	11,879,538	4,546,313							16,425,851
Other assets	7,565,617	8,880,004							16,445,621
Total noncurrent assets	5,775,688,898	999,267,350	286,449,520	101,915,460	82,438,465	3,378,700	-	(632,261,885)	6,616,876,508
Total assets	$10,895,789,071	$1,846,158,611	$ 393,632,369	$ 112,084,719	$82,759,663	$43,698,836	$2,407,554	$(1,142,157,225)	$12,234,373,598

See accompanying 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, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
LIABILITIES									
Current liabilities:									
Deposits, principally from the Commonwealth of Puerto Rico and its public entities:									
Demand	$ 2,780,562,925	$ -	$ -	$ -	$ -	$ -	$ -	$ (60,414,766)	$ 2,720,148,159
Certificates of deposit	4,578,483,723							(427,549,990)	4,150,933,733
Securities sold under agreements to repurchase	207,200,000								207,200,000
Commercial paper	500,000								500,000
Accrued interest payable	36,027,309		854,964	7,160,998				(19,088,233)	24,955,038
Accounts payable and accrued liabilities	38,772,134	15,445,748	1,637,512	2,749	10,231	3,614,416	2,224	642,835	60,127,849
Allowance for losses on guarantees and letters of credit						209,786			209,786
Due to governmental funds	24,766,706	1,993,457							26,760,163
Notes payable	93,204,456	-	873,000	2,612,186				(3,485,186)	93,204,456
Total current liabilities payable from unrestricted assets	7,759,517,253	17,439,205	3,365,476	9,775,933	10,231	3,824,202	2,224	(509,895,340)	7,284,039,184
Current liabilities payable from restricted assets:									
Accrued interest payable		2,953,640							2,953,640
Accounts payable and accrued liabilities		459,746							459,746
Bonds and mortgage-backed certificates payable		63,447,231							63,447,231
Total current liabilities	7,759,517,253	84,299,822	3,365,476	9,775,933	10,231	3,824,202	2,224	(509,895,340)	7,350,899,801
Noncurrent liabilities:									
Certificates of deposits, principally from the Commonwealth of Puerto Rico and its public entities	321,382,747							(188,931,031)	132,451,716
Certificates of indebtedness	11,800,000								11,800,000
Securities sold under agreements to repurchase	480,000,000								480,000,000
Allowance for losses on guarantees and letters of credit	1,000,000		1,270,052			633,557			2,903,609
Accounts payable and accrued liabilities	2,451,157						2,364,960		4,816,117
Participation agreement payable			26,000,000						26,000,000
Bonds and notes payable	862,624,977		213,061,464	101,323,891				(314,385,355)	862,624,977
Noncurrent liabilities payable from restricted assets:									
Allowance for losses on mortgage loan insurance		441,652							441,652
Bonds and mortgage-backed certificates payable		1,215,755,392						(128,945,499)	1,086,809,893
Total noncurrent liabilities	1,679,258,881	1,216,197,044	240,331,516	101,323,891	-	633,557	2,364,960	(632,261,885)	2,607,847,964
Total liabilities	9,438,776,134	1,300,496,866	243,696,992	111,099,824	10,231	4,457,759	2,367,184	(1,142,157,225)	9,958,747,765
NET ASSETS									
Invested in capital assets	22,850,528	4,546,313							27,396,841
Restricted for:									
Mortgage loan insurance		54,385,644							54,385,644
Affordable housing programs		175,073,146							175,073,146
Unrestricted	1,434,162,409	311,656,642	149,935,377	984,895	82,749,432	39,241,077	40,370		2,018,770,202
Total net assets	1,457,012,937	545,661,745	149,935,377	984,895	82,749,432	39,241,077	40,370	-	2,275,625,833
Total liabilities and net assets	$ 10,895,789,071	$ 1,846,158,611	$ 393,632,369	$ 112,084,719	$ 82,759,663	$ 43,698,836	$ 2,407,554	$ (1,142,157,225)	$ 12,234,373,598

See accompanying notes to basic financial statements.

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Total
OPERATING REVENUES:								
Investment income:								
Interest income on federal funds sold	$ 47,676,634	$ -	$ -	$ -	$ -	$ -	$ -	$ 47,676,634
Interest income on deposits placed with banks	80,310,347	28,576,328	1,957,465	38,550		1,444,241	75,021	112,401,952
Interest and dividend income on investments and investment contracts	66,781,549	57,991,596	2,996,645		554,712	53,496		128,377,998
Net increase (decrease) in fair value of investments	4,202,069	(764,145)	783,141		(5,389,358)			(1,168,293)
Total investment income (loss)	198,970,599	85,803,779	5,737,251	38,550	(4,834,646)	1,497,737	75,021	287,288,291
Interest income on loans receivable:								
Public sector	254,192,208			7,195,537				261,387,745
Private sector		11,806,657	15,639,450					27,446,107
Total interest income on loans receivable	254,192,208	11,806,657	15,639,450	7,195,537	-	-	-	288,833,852
Total investment income (loss) and interest income on loans receivable	453,162,807	97,610,436	21,376,701	7,234,087	(4,834,646)	1,497,737	75,021	576,122,143
Noninterest income:								
Fiscal agency fees	20,210,134	277,890						20,488,024
Commitment, guarantee and other service fees	4,811,842	6,493,816	2,642,361			58,176		14,006,195
Mortgage insurance premiums		3,052,525						3,052,525
Net gain on sale of real estate available for sale	4,296,557	232,106						4,528,663
Gain on sale of loans		24,776						24,776
Other income	6,440,139	823,453	766,082		58,516			8,088,190
Total noninterest income	35,758,672	10,904,566	3,408,443	-	58,516	58,176	-	50,188,373
Total operating revenues (loss)	488,921,479	108,515,002	24,785,144	7,234,087	(4,776,130)	1,555,913	75,021	626,310,516
OPERATING EXPENSES:								
Provision for loan losses		1,770,002	323,924					2,093,926
Interest expense:								
Deposits	229,712,412							229,712,412
Securities sold under agreements to repurchase	23,917,723							23,917,723
Commercial paper	10,678,317							10,678,317
Certificates of indebtedness	487,903							487,903
Bonds, notes and mortgage-backed certificates payable	75,839,338	71,027,429	13,472,952	7,160,997				167,500,716
Total interest expense	340,635,693	71,027,429	13,472,952	7,160,997	-	-	-	432,297,071
Noninterest expenses:								
Salaries and fringe benefits	25,484,675	12,918,702					59,156	38,462,533
Depreciation and amortization	1,579,553	689,093						2,268,646
Occupancy and equipment costs	4,153,774	1,433,690	60			-		5,587,524
Legal and professional fees	2,899,997	2,341,598	321,305	2,750	34,438	56,858	41,053	5,697,999
Office and administrative	683,547	451,863			33,320			1,168,730
Subsidy and trustee fees	52,190	338,950						391,140
Provision (credit) for losses on guarantees and letters of credit			(192,872)			1,242,721		1,049,849
Provision for amount due from Puerto Rico Department of Housing		227,993						227,993
Other	3,546,037	854,002	508,254	1,292	-	(6,398,292)	81,383	(1,407,324)
Total noninterest expenses	38,399,773	19,255,891	636,747	4,042	67,758	(5,098,713)	181,592	53,447,090
Total operating expenses (income)	379,035,466	92,053,322	14,433,623	7,165,039	67,758	(5,098,713)	181,592	487,838,087
OPERATING INCOME (LOSS)	109,886,013	16,461,680	10,351,521	69,048	(4,843,888)	6,654,626	(106,571)	138,472,429
CONTRIBUTIONS TO COOPERATIVE DEVELOPMENT INVESTMENT TRUST FUND AND OTHERS	(2,658,483)		(1,725,216)					(4,383,699)
SPECIAL ITEM — Early retirement program	(31,405,694)	(8,837,022)						(40,242,716)
TRANSFERS-IN		27,597,448						27,597,448
TRANSFERS-OUT	-	(23,362,595)	-	-	-	-	-	(23,362,595)
CHANGE IN NET ASSETS	75,821,836	11,859,511	8,626,305	69,048	(4,843,888)	6,654,626	(106,571)	98,080,867
NET ASSETS — Beginning of year	1,381,191,101	533,802,234	141,309,072	915,847	87,593,320	32,586,451	146,941	2,177,544,966
NET ASSETS — End of year	$ 1,457,012,937	$ 545,661,745	$ 149,935,377	$ 984,895	$ 82,749,432	$ 39,241,077	$ 40,370	$ 2,275,625,833

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:									
Cash received from interest on housing program loans	$ -	$ 11,541,289	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,541,289
Cash paid for housing program loans originated		(47,340,071)							(47,340,071)
Principal collected on mortgage and construction loans		13,714,877							13,714,877
Proceeds from sale of housing program loans		5,535,982							5,535,982
Guarantee fees collected			2,868,772			31,428			2,900,200
Payment of guarantees						(429,797)			(429,797)
Cash received from other operating non-interest revenues	36,819,042	4,013,805	1,206,456		58,516				42,097,819
Due from governmental funds	(57,930,756)	(2,491,914)							(60,422,670)
Cash payments for other operating non-interest expenses	(2,702,930)	(6,102,534)	(1,814,348)	(3,848)	(87,154)	(65,354)	(49,794)	(1,616,107)	(12,442,069)
Cash received from mortgage loans insurance premiums		3,052,525							3,052,525
Payment for early retirement program	(20,963,074)	(7,515,569)							(28,478,643)
Cash payments for salaries and fringe benefits	(26,387,365)	(12,994,171)					(59,156)		(39,440,692)
Net cash provided by (used in) operating activities	(71,165,083)	(38,585,781)	2,260,880	(3,848)	(28,638)	(463,723)	(108,950)	(1,616,107)	(109,711,250)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:									
Contributions to others	(3,672,434)		(725,216)						(4,397,650)
Transfer-in		27,597,448							27,597,448
Transfer-out		(23,362,595)							(23,362,595)
Net increase (decrease) in:									
Deposits	1,522,683,381							22,856,671	1,545,540,052
Commercial paper	(575,361,000)								(575,361,000)
Proceeds from issuance of securities sold under agreements to repurchase	587,204,000								587,204,000
Payment of securities sold under agreements to repurchase	(355,004,000)								(355,004,000)
Proceeds from issuance of bonds and notes	869,767,600	200,000,000	39,229,669					(39,229,669)	1,069,767,600
Repayments of bonds and notes	(1,877,800,000)	(99,455,839)	(10,266,376)	(198,329,030)				208,599,551	(1,977,251,694)
Payment of bond issue costs		(2,738,407)							(2,738,407)
Interest paid	(347,367,343)	(34,776,325)	(11,865,527)	(20,452,988)				(14,033,685)	(428,495,868)
Net cash provided by (used in) noncapital financing activities	(179,549,796)	67,264,282	16,372,550	(218,782,018)				178,192,868	(136,502,114)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES — Purchase of capital assets	(2,458,973)	(1,557,181)							(4,016,154)

(Continued)

See accompanying notes to basic financial statements.

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
CASH FLOWS FROM INVESTING ACTIVITIES:									
Net decrease (increase) in:									
Federal funds sold	$ 628,880,000	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 628,880,000
Deposits placed with banks	315,057,870	(2,588,934)	(3,765,108)					6,988,217	315,692,045
Purchases of investments	(5,093,621,769)	(244,392,640)	(17,442,429)		(5,000,000)	(3,378,700)		7,765,468	(5,356,070,070)
Proceeds from sales and redemptions of investments	3,000,007,101	139,429,596	16,920,918		5,000,000			(38,035,579)	3,123,322,036
Interest and dividends received on investments	177,621,684	76,194,999	4,511,037		28,638	1,603,620	81,529	(217,201)	259,824,306
Interest received on other than housing program loans	465,462,637		14,578,994	20,497,096				14,256,318	514,795,045
Origination of other than housing program loans	(2,822,621,097)		(43,640,152)					39,229,669	(2,827,031,580)
Principal collected on other than housing program loans	3,622,458,463		16,468,995	198,329,030				(208,599,551)	3,628,656,937
Disbursements for acquisition and improvements to real estate held for sale	(3,905,160)	(801,694)							(4,706,854)
Proceeds from sale of real estate held for sale	17,901,600	1,148,627							19,050,227
Net change in other assets		51,917							51,917
Net cash provided by (used in) investing activities	307,241,329	(30,958,129)	(12,367,745)	218,826,126	28,638	(1,775,080)	81,529	(178,612,659)	302,464,009
Net change in cash and due from banks	54,067,477	(3,836,809)	6,265,685	40,260		(2,238,803)	(27,421)	(2,035,898)	52,234,491
Cash and due from banks — beginning of year	5,750,881	30,441,669	5,102,398	1,219,026		42,477,336	2,432,286	(57,736,032)	29,687,564
Cash and due from banks — end of year	$ 59,818,358	$ 26,604,860	$ 11,368,083	$ 1,259,286	$ -	$ 40,238,533	$ 2,404,865	$ (59,771,930)	$ 81,922,055
Reconciliation to enterprise funds balance sheet:									
Cash – unrestricted	$ 59,818,358	$ 4,374,167	$ 11,368,083	$ 1,259,286	$ -	$ 40,238,533	$ 2,404,865	$ (59,251,191)	$ 60,212,101
Cash – restricted		22,230,693						(520,739)	21,709,954
Total cash at year end	$ 59,818,358	$ 26,604,860	$ 11,368,083	$ 1,259,286	$ -	$ 40,238,533	$ 2,404,865	$ (59,771,930)	$ 81,922,055

See accompanying notes to basic financial statements

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:									
Operating income (loss)	$ 109,886,013	$ 16,461,680	$ 10,351,521	$ 69,048	$ (4,843,888)	$ 6,654,628	$ (106,571)	$ -	$ 138,472,431
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Investment income	(194,768,530)	(86,567,924)	(4,954,110)	(38,550)	(554,712)	(1,497,737)	(75,021)		(288,456,584)
Interest income on other than housing program loans	(254,192,208)		(15,639,450)	(7,195,537)					(277,027,195)
Interest expense	340,635,693	71,027,429	13,472,952	7,160,996					432,297,070
Provision for loan losses		1,770,002	323,924						2,093,926
Provision (credit) for losses on guarantees and letters of credit			(192,872)			1,242,721			1,049,849
Payments of guarantees						(429,797)			(429,797)
Early retirement program	(31,405,694)	(8,837,022)							(40,242,716)
Provision (credit) for losses on other assets	(839,879)	227,993	609,365						(2,521)
Net decrease (increase) in fair value of investment	(4,202,069)	764,145	(783,141)		5,389,358				1,168,293
Net increase in fair value of derivatives	(29,093,604)								(29,093,604)
Net decrease in fair value of hedged item	24,246,329								24,246,329
Net gain on sale of real estate held for sale	(4,296,557)	(232,106)							(4,528,663)
Provision for losses on real estate held for sale		252,511							252,511
Net gain on sales of housing program loans		(24,776)							(24,776)
Loss on disposition of capital assets	57,347								57,347
Depreciation and amortization	1,579,553	689,093							2,268,646
Accretion of deferred loan fees and costs		(327,395)							(327,395)
Changes in operating assets and liabilities:									
Housing program loans receivable		(47,340,071)							(47,340,071)
Collections of mortgage and construction loans		13,714,877							13,714,877
Proceeds from sale of housing program loans		5,535,982							5,535,982
Interest receivable on housing program loans		(265,369)							(265,369)
Decrease (increase) in other assets	12,366,980	(3,253,957)	78,185			(26,748)	831		9,165,291
Decrease in due from governmental funds	(57,930,756)	(2,491,914)							(60,422,670)
Decrease in due to Commonwealth of Puerto Rico	(1,013,951)								(1,013,951)
Increase (decrease) in other liabilities	17,806,250	311,041	(1,005,494)	195	(19,396)	(6,406,790)	71,811	(1,616,107)	9,141,510
Net cash provided by (used in) operating activities	$ (71,165,083)	$ (38,585,781)	$ 2,260,880	$ (3,848)	$ (28,638)	$ (463,723)	$ (108,950)	$ (1,616,107)	$ (109,711,250)

See accompanying notes to basic financial statements.

(Continued)

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	GDB Operating Fund	Housing Finance Authority	Tourism Development Fund	Public Finance Corporation	Capital Fund	Development Fund	Other Nonmajor	Eliminations	Total
Noncash investing and noncapital financing activities:									
Accretion of discount on investment securities and capitalized interest on investment securities	$ 22,274,732	$ 9,721,244	$ -	$ -	$ 541,222	$ -	$ -	$ (9,721,244)	$ 22,815,954
Capitalized interest on loans and other	(1,931,863)	564,299							(1,367,564)
Loan to foreclosed real estate			609,365						609,365
Transfer of investments to mortgage loans receivable		5,273,323							5,273,323
Transfer of mortgage loans receivable to real estate held for sale		1,522,502							1,522,502
Capital assets acquired that have not been paid		1,181,433							1,181,433
Bond issue costs that have not been paid		16,309							16,309
Accretion of discount on:									
Deposits	9,721,244							(9,721,244)	
Bonds payable	10,271,537	33,704,251						(9,746,406)	34,229,382
Increase (decrease) in fair value of investments	4,202,069	(764,145)	783,141		(5,389,358)			(9,746,406)	(10,914,699)
Increase in fair value of derivatives	(29,093,604)								(29,093,604)
Decrease in fair value of hedged item	30,614,056								30,614,056
Amortization of bond issue cost (included in interest expense)	1,932,715								1,932,715
Amortization of deferred loss		395,920							395,920

See accompanying notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

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

Pursuant to Act No. 82 of June 16, 2002, which amended the Bank's enabling legislation, the Bank may transfer annually to the General Fund of the Commonwealth (the "General Fund") up to 10% of its net income or $10 million, whichever is greater. Management of the Bank has defined net income as the increase in unrestricted net assets of business-type activities for a fiscal year. The Bank's board of directors approved such definition. The board of directors of the Bank approved not to make this transfer for the year ended June 30, 2008.

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

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

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

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

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

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

The Capital Fund was created in 1992 to expand the investment options available to the Bank and to administer, separately from the Bank's general investment operations, an equity investments process through professional equity investment managers. In January 2002, the Bank's board of directors authorized an increase in the capitalization of the Capital Fund of up to 10% of the net assets of the Bank, as well as the adoption of a new investment strategy, which included the hiring of two additional portfolio managers to diversify the Capital Fund investments in the equity markets. As of June 30, 2008, management, with the consent of the Bank's board of directors, deemed convenient to defer its implementation, and in the meantime elected a passive management considering it a more cost-effective mechanism.

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

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

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank conform to U.S. GAAP, as applicable to governmental entities.

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, the Bank has elected to apply all applicable statements and interpretations issued by the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures in accounting and reporting for its enterprise funds operations and government-wide activities, unless they conflict with GASB pronouncements.

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

Government-Wide and Fund Financial Statements

Government-wide Financial Statements — The statement of net assets 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 taxes, 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. Following is a description of the Bank's government-wide financial statements.

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

- Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

- Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

Measurement Focus, Basis of Accounting, and Financial Statements Presentation

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

Governmental Funds' Financial Statements — The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Bank considers revenues to be available if they are collected within 120 days after the end of the fiscal year. Principal revenue sources considered susceptible to accrual include federal and Commonwealth funds to be received by the New Secure Housing Program fund. 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, 2008, 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:

- **Affordable Housing Mortgage Subsidy Program (Stages 7, 8 and 9)** — These special revenue funds are used to account for the proceeds of specific revenue sources under Stages 7, 8 and 9 of the Affordable Housing Mortgage Subsidy Program (AHMSP) that are legally restricted for expenditures to promote the origination of mortgage loans by financial institutions in the private sector to low and moderate-income families. Under these stages, the Housing Finance Authority commits to provide subsidy for the down payment and/or the principal and interest payments on mortgage loans originated under a predetermined schedule of originations and, in the case of Stage 9, to acquire such mortgages in the form of mortgage-backed securities issued by the financial institutions. Loans originated, as well as servicing, are kept by the originating financial institution. There was no open schedule of originations under these stages as of June 30, 2008.

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

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

- **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.

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

- **Affordable Housing Mortgage Subsidy Programs (Stages 2, 3 and 6)** — These special revenue funds are similar to Stages 7 and 8 described above. There was no open schedule of originations under these stages as of June 30, 2008.

- **Affordable Housing Mortgage Subsidy Program (Stages 10 and 11)** — These special revenue funds are similar to Stage 9 described above. At June 30, 2008, the Housing Finance Authority had a commitment, expiring on September 1, 2009, for the acquisition of mortgage-backed securities amounting to approximately $200 million.

- **Affordable Housing Mortgage Subsidy Program – Act No. 124** — This special revenue fund accounts for excess subsidy funds as well as accumulated net assets released periodically from arbitrage structures used to provide housing assistance.

- **Special Obligation Refunding Bonds - Debt Service** — This debt service fund accounts for the funds and assets transferred by the Commonwealth through legislative appropriations and by the liquidator of the former Corporación de Renovación Urbana y Vivienda (CRUV).

- **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.

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

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

Securities Purchased Under Agreements to Resell — The Bank enters into purchases of securities under agreements to resell. The amounts advanced under these agreements generally represent short-term loans and are reflected as an asset. The securities underlying these agreements are usually held by the broker or his/her agent, with whom the agreement is transacted. There were no securities purchased under agreements to resell outstanding at June 30, 2008.

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. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

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

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

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

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

Loans to the Commonwealth of Puerto Rico, its agencies and instrumentalities amounted to approximately $3,997,471,000 or 32% of the Bank's total assets as of June 30, 2008. These loans are expected to be collected from appropriations from, bond issuances of, or revenues generated by, the Commonwealth of Puerto Rico, its agencies and instrumentalities. The Commonwealth's recurring expenditures have exceeded its recurring revenues during the past six years and its credit ratings have been lowered. The collectibility of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth of Puerto Rico, its agencies and instrumentalities, and their ability to generate sufficient funds from taxes, charges and/or bond issuances. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition, liquidity, funding sources, and results of operations.

Management believes that no losses will be incurred by the Bank with respect to principal and interest on most of its loans to the public sector (including municipalities), and, as a result, no allowance for loan losses is generally established for them. For public sector loans, excluding municipalities, management bases its position in that in the past, the Director of the Office of Management and Budget of the Commonwealth ("OMB") has included in the budget of the Commonwealth, appropriations to assist certain public sector corporations, agencies, and instrumentalities in repaying their loans with the Bank. The Legislature of the Commonwealth (the "Legislature") has generally approved these appropriations, and such practice is anticipated to continue in the future. Further, in accordance with Act No. 164 of December 17, 2001, the Bank is no longer allowed to originate loans to any governmental entity for which the source of repayment consists of appropriations from the Commonwealth's general fund without first obtaining the approval of the Legislature, except for (i) loans up to an aggregate amount of $100,000,000 as long as, among other things, the Bank obtains the written approval of the Governor and the Director of OMB, (ii) loans to any financially troubled governmental entity to enable it to honor its debt obligations, and (iii) loans to the Secretary of the Treasury under legislation authorizing the Secretary to borrow funds in anticipation of tax revenues. In addition, on May 13, 2006, the Legislature enacted Act No. 91 that established the *Dedicated Sales Tax Fund,* known as FIA by the acronym of its Spanish name (the "FIA Fund"). Act No. 91 provides that the first one percent of the Commonwealth's share of the sales and consumption tax ("Pledged Sales Tax") will be used to repay certain obligations of the Commonwealth that were outstanding at June 30, 2006, payable to the Bank and the Public Finance Corporation, generally referred to as extra-constitutional debt, including approximately $2.8 billion of loans due by the Commonwealth and certain of its instrumentalities to the Bank.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56 enacted on July 6, 2007, to create the Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Corporation") as an independent governmental instrumentality that will own and hold the FIA Fund for the purpose of financing the payment, retirement or defeasance of the extra-constitutional debt. Pursuant to Act No. 91, as amended, the Sales Tax Corporation issued Bonds Series A and B on July 31, 2007 (the "Sales Tax Corporation Bonds") for the payment and retirement of a portion of the extra-constitutional debt outstanding at June 30, 2006. From the proceeds of the Sales Tax Corporation Bonds, the Bank received $1.7 billion on July 31, 2007 in partial payment of the outstanding extra- constitutional debt. The Sales Tax Corporation Bonds and any additional bonds issued by the Sales Tax Corporation will be payable from and secured by the Pledged Sales Tax.

Also, loans granted to finance capital improvement programs of certain public entities are generally repaid from the proceeds of future bond issuances of these public entities or the Commonwealth. The public corporations and the Commonwealth have never defaulted on their respective bonds. Although management of the Bank believes that no additional losses of principal and interest will be incurred by the Bank with respect to loans outstanding to the public sector at June 30, 2008, there can be no assurance that the Director of the OMB will include amounts for loan repayments in the Commonwealth budget, and that the Legislature will appropriate sufficient funds in the future to cover all amounts due to the Bank by public sector entities requiring such support, or that future collections of the Pledged Sales Tax will be sufficient to cover the outstanding amount of extra-constitutional debt at June 30, 2008. Also, the participation of certain public entities in the bond issuance market has been delayed waiting for the credit rating of the issuer to improve or for more favorable market conditions. Because of the relationship among the Bank, the public sector entities, the Director of the OMB, and the Legislature, the timing and amount of any financial assistance, Pledged Sales Tax, and bond proceeds to be provided to certain entities in repaying their loans cannot be reasonably estimated by the Bank, and therefore, no allowance has been established in the case of public sector loans for any shortfall between the present value of the expected future cash flows and the recorded investment in the loans.

Loans to municipalities amounting to approximately $401 million at June 30, 2008 are collateralized by a pledge of a portion of property tax assessments of each municipality. These loans include bonds and notes issued by Puerto Rico municipalities which are acquired by the Bank as bridge financing until such financings can be packaged and securitized. Subsequently, from time to time, the Bank sells, at par, a selection of these bonds and notes to Puerto Rico Municipal Finance Agency ("MFA"), a component unit of the Commonwealth organized to create a capital market to assist municipalities in financing their public improvements programs. These loans, when sold, are pledged to secure the debt service payments for the bonds issued by MFA. In addition, Act. No. 80, enacted on July 29, 2007, provides that a portion of the municipal sales tax will be deposited in special accounts with the Bank for the purpose of granting loans to municipalities. The funds available in such accounts increase the borrowing capacity of the corresponding municipality. As of June 30, 2008, loans to municipalities repayable from these accounts amounted to approximately $270 million.

Loans recorded in the governmental funds are presented at the outstanding unpaid principal balance reduced by an allowance for loan losses. A reserve for long-term loans receivable and other assets is recorded within fund balance representing amounts not expected to be collected within the next fiscal year.

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

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

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

Pursuant to the legislation under which the Tourism Development Fund was created, the Executive Director of the Tourism Development Fund is required to certify each year to the Director of the OMB the amount, if any, that is necessary to reimburse the Tourism Development Fund for disbursements made in the previous year, in connection with obligations guaranteed in excess of fees and charges collected on such guarantees. This legislation currently does not expressly provide for the reimbursement of losses incurred by the Tourism Development Fund on loans made directly by the Tourism Development Fund. The Tourism Development Fund is in the process of submitting an amendment to this legislation to provide for the reimbursement of such losses. The Director of the OMB has to include the amount subject to reimbursement in the General Budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2008 there were no outstanding claims for reimbursements.

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

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

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

Capital Assets — Capital assets, which include premises and equipment, are stated at cost less accumulated depreciation and amortization, and are reported in the business-type activities column in the government-wide financial statements. Capital assets are defined by the Bank as assets which have a cost of $500 or more at the date of acquisition and have an expected useful life of three or more years.

Depreciation is charged to operations and included within other noninterest expense, and is computed on the straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Costs of maintenance and repairs, which do not improve or extend the lives of the respective assets, are charged to expense as incurred.

Estimated useful lives are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivative Instruments and Hedging Activities — On the date a derivative contract is entered into, the Bank designates the derivative as either a hedge of the fair value of a recognized asset or liability (fair value hedge), or a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge).

For all fair value hedging relationships, the Bank formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair value to specific assets and liabilities on the balance sheet. The Bank also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair value of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge are reflected in the statement of revenues, expenses, and changes in net assets, together with changes in the fair value of the related hedged item.

The Bank discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative expires or is sold, terminated, or exercised, or management determines that designation of the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair value hedge, the Bank continues to carry the derivative on the balance sheet at its fair value and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability.

For cash flow hedges, in which derivatives hedge the variability of cash flows related to floating rate assets or liabilities, the accounting treatment depends on the effectiveness of the hedge. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, the changes in the derivatives' fair value are reported in the statement of revenues, expenses, and changes in net assets. The Bank records on the balance sheet or statement of net assets, the fair value of derivatives intended to hedge the variability of cash flows to be received or paid related to a recognized assets or liability.

Derivative-like instruments embedded in contracts that meet certain criteria are separated from their host contract and carried at their fair value, while the host contract is accounted for based on GAAP applicable to instruments of that type that do not contain embedded derivative instruments. When the Bank enters into a derivative instrument for the purpose of managing its exposure on another freestanding or embedded derivative instrument, the derivative is recorded at its fair value on the balance sheet or statement of net assets and recognizes any changes in fair value in the statement of revenues, expenses, and changes in net assets or statement of activities.

Effective July 1, 2008, the Bank will follow the provisions of GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments*. At June 30, 2008, there were no derivative instruments outstanding.

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

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which is effective for financial statements for periods beginning after December 15, 2007.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which is effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 52, *Land and Other Real Estates Held as Investments by Endowments,* which is effective for financial statements for periods beginning after June 15, 2008.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for periods beginning after June 15, 2009.

Adoption of these statements is not expected to have a material impact on the Bank's basic financial statements.

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

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2008. 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 $1,616 million mature within one year. Federal funds sold mature overnight and no collateral is required. As of June 30, 2008, $2,012,883,443 of the depository bank balance of $2,013,407,876 was uninsured and uncollateralized as follows:

	Carrying Amount	Depository Bank Balance	Amount Uninsured and Uncollateralized
Cash and due from banks	$ 86,942,009	$ 80,834,059	$ 80,269,626
Deposits placed with banks	1,615,993,817	1,615,953,817	1,615,993,817
Federal funds sold	316,620,000	316,620,000	316,620,000
Total	$2,019,555,826	$2,013,407,876	$2,012,883,443

Reconciliation to the government-wide statement of net assets:

Unrestricted:	
Cash and due from banks	$ 60,212,101
Federal funds sold	316,620,000
Deposits placed with banks	1,533,888,304
Total unrestricted	1,910,720,405
Restricted:	
Cash and due from banks	26,729,908
Deposits placed with banks	82,105,513
Total restricted	108,835,421
Total	$ 2,019,555,826

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

The Bank's investment policies establish limitations and other guidelines on 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 Fitch Ratings or Moody's Investors Service, 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 and management.

The following table summarizes the type and maturities of investments held by the Bank at June 30, 2008. 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	$ 14,997,389	$ -	$ -	$ -	$ 14,997,389
U.S. Treasury notes	9,673,984				9,673,984
U.S. sponsored agencies notes:					
Federal Home Loan Bank (FHLB)	34,996,500	404,195,020			439,191,520
Federal Farm Credit Bank ("FFCB")		4,352,517			4,352,517
Mortgage and asset-backed securities:					
Government National Mortgage Association (GNMA)	25,500	2,508,960	4,010,216	504,134,214	510,678,890
Federal National Mortgage Association (FNMA)		668,039	144,470,668	18,274,456	163,413,163
Federal Home Mortgage Corporation (FHLMC)	12,096	32,855	19,041,544	174,094,307	193,180,802
Other	1,147,915	4,100,153			5,248,068
Corporate debt:					
Popular North America	4,850,000				4,850,000
Morgan Stanley				26,739,250	26,739,250
General Electric		5,087,900			5,087,900
Pfizer, Inc.	2,002,200				2,002,200
Other				13,800,000	13,800,000
External investment pools —					
Fixed-income securities	2,261,006,501				2,261,006,501
Nonparticipating investment contracts:					
CDC Funding	141,824,581			32,950,236	174,774,817
American International Group				188,931,032	188,931,032
Other				83,757,582	83,757,582
U.S. municipal notes				45,100,000	45,100,000
Commonwealth agency bonds		3,530,000		195,745,000	199,275,000
Total investments	$ 2,470,536,666	$ 424,475,444	$ 167,522,428	$ 1,283,526,077	4,346,060,615
External investment pools:					
Equity securities:					
Russell 1000 Growth Common Trust Fund					40,976,675
Global Opportunities Capital Appreciation Fund					14,722,540
Equity securities — Grupo Hima San Pablo					3,378,700
Other					722,933
Total					$ 4,405,861,463
Reconciliation to the government-wide statement of net assets					
Unrestricted investments and investment contracts					$ 2,635,014,277
Restricted investments and investment contracts					1,770,847,186
Total					$ 4,405,861,463

Investments in fixed-income external investment pools had an average maturity of less than 60 days; accordingly, they were presented as investments with maturity of less than one year. These investments include $38,048,333 invested with 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, 2008, the Bank's $45,627,150 investment in corporate debt with maturity over one year bears a fixed interest rate. Also, at June 30, 2008, approximately 63% of the Bank's investments in mortgage and asset-backed securities were held by trustees in connection with bonds issued by the Housing Finance Authority, the terms of which generally provide for early redemption of the bonds if the securities are early repaid.

All of the Bank's investments in U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA carry the explicit guarantee of the U.S. government. The credit quality ratings for investments in debt securities, excluding U.S. Treasury securities and mortgage-backed securities guaranteed by GNMA, at June 30, 2008 are as follows:

	Credit Risk				
	Rating				
Securities type	**AAA to A**	**BBB+**	**BBB-**	**Not Rated**	**Total**
U.S. sponsored agencies notes:					
FHLB	$ 439,191,520	$ -	$ -	$ -	$ 439,191,520
FFCB	4,352,517				4,352,517
Mortgage and asset-backed securities:					
FNMA	163,413,163				163,413,163
FHLMC	193,180,802				193,180,802
Other	4,683,904			564,164	5,248,068
Corporate debt	47,629,350	4,850,000			52,479,350
External investment pools - Fixed-income securities	2,261,006,501				2,261,006,501
Nonparticipating investment contracts	447,463,431				447,463,431
U.S. municipal notes	45,100,000				45,100,000
Commonwealth agency bonds	3,770,000		195,505,000		199,275,000
Total	$ 3,609,791,188	$ 4,850,000	$ 195,505,000	$ 564,164	$ 3,810,710,352

The credit quality ratings of nonparticipating investment contracts are based on the credit quality ratings at June 30, 2008 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, 2008, 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	$ 1,150,257,124
Securities sold under agreements to repurchase	687,200,000
Certificates of indebtedness	11,800,000

5. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans at June 30, 2008 consist of the outstanding balance of credit facilities granted to the following (in thousands):

		Enterprise funds				
	Governmenta Activities	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Public Finance Corporation	Total
Public corporations and agencies	$ -	$3,892,943	$ -	$ -	$104,528	$3,997,471
Municipalities		1,003,259				1,003,259
Allowance for loan losses		(11,860)				(11,860)
Total loans to public sector	-	4,884,342	-	-	104,528	4,988,870
Private sector	3,133	474	271,525	230,198		505,330
Allowance for loan losses	(613)	(264)	(5,423)	(24,481)	-	(30,781)
Total loans to private sector	2,520	210	266,102	205,717	-	474,549
Balance — end of year	$2,520	$4,884,552	$266,102	$205,717	$104,528	$5,463,419

Reconciliation to the government-wide statement of net assets:	
Unrestricted loans receivable — net	$5,454,425
Restricted loans receivable — net:	
Governmental activities	2,520
Business-type activities	6,474
Total	$5,463,419

Public sector loans amounting to approximately $635 million as of June 30, 2008 were delinquent by 90 days or more, including approximately $96 million of loans classified as non-accrual. Interest income that would have been recorded if these loans had been accruing in accordance with their original terms was approximately $5.4 million in 2008. Interest collected on these loans during the year ended June 30, 2008 amounted to approximately $799 thousand.

At June 30, 2008, the Bank has established an allowance for loan losses of $11,860,000 related to a loan granted to a municipality. This loan was granted in 1991 and was being repaid until 2001, when legal action was brought against the Bank and another public entity of the Commonwealth. In 2005, a favorable judgment for the Bank was issued and the loan was required to be refinanced but, the borrower has not been able to meet its obligations. The Bank continues its efforts to collect in full this loan, however, due to the uncertainties at June 30 2008, management decided to provide an allowance for the outstanding balance of the loan. The Bank's management believes that other loans to municipalities do not posses characteristics similar to this loan and, accordingly, believes that no additional allowance is required for the remaining outstanding balance of loans to municipalities.

Loans to the private sector include the outstanding principal balance of credit facilities granted by the Bank to private enterprises in Puerto Rico, the activities of which are deemed to further the economic development of Puerto Rico. They also include the outstanding principal balance of mortgage loans granted to low and moderate-income families for the acquisition of single-family housing units and to developers of low and moderate-income multifamily housing units in Puerto Rico, and direct loans to tourism projects. These credit facilities amounted to approximately $505 million at June 30, 2008 of which approximately $206 million are mortgage loans for low and moderate-income housing units and approximately $266 million are for tourism projects.

At June 30, 2008, public sector loans amounting to approximately $3,997,471,000 were repayable from the following sources (in thousands):

Repayment source	Amount
FIA Fund	$ 1,084,454
Proceeds from future issuance of Commonwealth's general obligation bonds	1,219,714
Other — including future legislative appropriations and proceeds from future bond issuances from public entities other than the Commonwealth	1,693,303
Total	$ 3,997,471

Private sector loans classified as non-accrual amounted to approximately $41.8 million at June 30, 2008. Interest income that would have been recorded if these loans had been performing in accordance with their original terms was approximately $2.3 million in 2008. No interest was collected on these loans for the year ended June 30, 2008.

The following is a summary of private sector loans of the enterprise funds considered to be impaired as of June 30, 2008, and the related interest income for the year then ended (in thousands):

	Enterprise funds		
	GDB Operating Fund	Housing Finance Authority	Total
Recorded investment in impaired loans:			
Not requiring an allowance for loan losses	$ 210	$ -	$ 210
Requiring an allowance for loan losses	264	59,049	59,313
Total recorded investment in impaired loans	$ 474	$ 59,049	$ 59,523
Related allowance for loan losses	$ 264	$ 8,561	$ 8,825
Average recorded investment in impaired loans	474	58,555	59,029
Interest income recognized on impaired loans	-	664	664

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2008 (in thousands):

		Enterprise Funds			
	Governmental Activities	GDB Operating Fund	Tourism Development Fund	Housing Finance Authority	Total
Balance — beginning of year	$ 874	$ 12,124	$ 5,099	$24,602	$42,699
Provision (credit) for loan losses	(247)		324	1,770	1,847
Charge-offs	(14)	-	-	(1,891)	(1,905)
Balance — end of year	$ 613	$ 12,124	$ 5,423	$24,481	$42,641

During the year ended June 30, 2008, the Housing Finance Authority sold approximately $5.5 million of single family mortgage loans receivable. The net proceeds from the sale of these loans amounted to approximately $5.6 million, including $24,168 of accrued interest. The net gain on the sale of these loans was approximately $25,000.

Since one of the Bank's principal functions is to provide financing to the Commonwealth and its instrumentalities, the Bank's loan portfolio includes loans to various departments and agencies of the Commonwealth, to various public corporations, and to municipalities, which represent a significant portion of the Bank's assets. Loans to the Commonwealth and its agencies typically include working capital lines of credit payable from short-term tax and revenue anticipation notes issued by the Commonwealth, interim financing of capital improvements payable from Commonwealth general obligation bonds, and in recent years loans to finance the Commonwealth's budget deficit, which loans are payable from uncollected taxes and from annual appropriations made by the legislature of Puerto Rico. Loans to the public sector, excluding municipalities, amounted to approximately $4.0 billion or 32% of the Bank's government-wide total assets at June 30,2008.

Many of the public sector loans are payable from legislative appropriations from, or future tax revenues of, the Commonwealth. Accordingly, the payment of these loans may be affected by budgetary constraints, the fiscal situation and the credit rating of the Commonwealth. Significant negative changes in these factors may have an adverse impact on the Bank's financial condition. During fiscal years 2003, 2004, 2005, 2006 and 2007 the Commonwealth's recurring expenditures exceeded its recurring revenues. These shortfalls were partially covered with loans from the Bank and other non-recurring revenues. In addition, the Commonwealth has preliminary estimated that it expenditures will exceed its revenues for fiscal year 2008. Also, the approved Commonwealth's budget for fiscal year 2009 shows an excess of expenditures over revenues of approximately $1 billion. During fiscal years 2003, 2004, 2005, 2006 and 2008, the Bank granted loans to the Commonwealth for $250 million, $233 million, $550 million, $741 million, and $190 million, respectively, to cover part of the Commonwealth's deficit. As of June 30, 2008, the outstanding principal amount of loans granted to finance the Commonwealth's budget deficit was $430 million.

In addition, due mainly to the Commonwealth's financial situation, in May 2005, Moody's Investors Service ("Moody's") and Standards & Poor's Rating Services ("S&P") each announced downgrades to the Commonwealth's credit ratings. Moody's and S&P lowered the rating on the Commonwealth's appropriation debt to "Baa3" and "BBB-," respectively. On February 24, 2006, Moody's placed the Commonwealth's rating on Watchlist with negative implications. On March 22, 2006, S&P placed the Commonwealth's rating on CreditWatch with negative implications. On May 8, 2006, Moody's further downgraded the Commonwealth's appropriation debt rating from Baa3 to Bal and kept the ratings on Watchlist. On July 20, 2006, S&P confirmed its BBB- rating on the Commonwealth appropriation debt, and removed the rating from CreditWatch with negative implications. S&P's rating outlook, however, remains negative. On July 21, 2006, Moody's confirmed its Bal rating on the Commonwealth's appropriation debt and removed the rating from Watchlist with negative implications. On November 6, 2007, Moody's changed the rating outlook of the Commonwealth from negative to stable. At June 30, 2008, the Commonwealth's credit rating was BBB- and Baa3 by S&P & Moody's, respectively.

In an effort to address the Commonwealth's structural budget imbalance, the Legislature enacted Act No. 117 of July 4, 2006 ("Act 117"), which amended the Puerto Rico Internal Revenue Code of 1994 to provide, among other things, for a general sales and use tax of 5.5% (the "Sales Tax") to be imposed by the Commonwealth. The Act also eliminated the 5% general excise tax imposed on imported goods and the 3.6% general excise tax on goods manufactured in Puerto Rico, and provides certain income tax reductions to taxpayers. The Sales Tax was effective on November 15, 2006. Act 117 also imposed other measures to address the structural budget imbalance, such as fiscal reform, government reorganization plan, and special income tax rates to certain transactions occurring during the first semester of fiscal year 2007.

The Legislature enacted on May 13, 2006 Act No. 91, which created the Imperative Interest Fund (the "IIF"), as a separate fund to be administered by the Department of the Treasury of the Commonwealth and GDB. The IIF will generate revenues from collections of the first one percent of the Sales Tax. Such revenues shall be used for, among other, paying, refinancing or restructuring the extra-constitutional debt of the Commonwealth that was outstanding at June 30, 2006. Public sector loans to the Commonwealth, its agencies and instrumentalities that do not have the full faith and credit of the Commonwealth are considered extra-constitutional debt. As of June 30, 2008, approximately $1.1 billion of public sector loans are considered extra-constitutional debt subject to repayment from Sales Tax revenues collected by the IIF.

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

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

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

Management of the Bank believes that the carrying amount of the loans to the public sector will be collected (including interest at the contracted rate), and that accordingly, no allowance for loan losses is needed at June 30, 2008.

6. DUE FROM FEDERAL GOVERNMENT

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

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

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

On June 6, 2008, the Department of Housing requested an additional one-year extension up to December 31, 2009 for the completion of the construction and relocation of participants into new secure housing facilities. On July 1, 2008, FEMA denied the additional one-year extension. The Department of Housing requested through the Governor's Authorized Representative (GAR) on September 19, 2008 a reconsideration of FEMA's decision not to grant the extension. The Commonwealth, through the GAR, has been in constant communication with FEMA discussing the issues that have prevented the Commonwealth from complying with scheduled dates for construction activity and case management. However, FEMA has not made a final determination on the reconsideration of the additional extension request.

Based on previous experience, management believes it is probable that FEMA will accept the reconsideration and grant the additional one-year extension. Management of the Housing Finance Authority also believes that the Program has complied substantially with the terms of the grant and that all amounts claimed will be collected and, therefore, no allowance for uncollectible accounts has been established on the $20.9 million due from federal government at June 30, 2008.

7. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions/ Reclassifications	Ending Balance
Capital assets not being depreciated — land	$10,970,990	$ -	$ -	$10,970,990
Capital assets being depreciated:				
Building	8,988,048			8,988,048
Leasehold improvements	2,450,008	1,544,853		3,994,861
Information systems	3,418,279	2,003,560	(2,099,696)	3,322,143
Office furniture and equipment	3,042,790	766,136	(957,004)	2,851,922
Software	3,773,033	883,038	(857,294)	3,798,777
Vehicles	257,885	-	(49,970)	207,915
Total capital assets being depreciated	21,930,043	5,197,587	(3,963,964)	23,163,666
Less accumulated depreciation and amortization for:				
Building	(1,460,557)	(224,701)		(1,685,258)
Leasehold improvements	(766,095)	(239,191)		(1,005,286)
Information systems	(2,981,543)	(630,591)	2,049,753	(1,562,381)
Office furniture and equipment	(1,919,866)	(503,683)	951,756	(1,471,793)
Software	(1,042,847)	(642,989)	855,406	(830,430)
Vehicles	(204,878)	(27,491)	49,702	(182,667)
Total accumulated depreciation and amortization	(8,375,786)	(2,268,646)	3,906,617	(6,737,815)
Total capital assets being depreciated — net	13,554,257	2,928,941	(57,347)	16,425,851
Total capital assets — net	$24,525,247	$ 2,928,941	$ (57,347)	$27,396,841

8. 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 $206.3 million in 2008.

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

Carrying amount at June 30, 2008	$687,200,000
Maximum amount outstanding at any month-end	687,200,000
Average amount outstanding during the year	494,955,541
Weighted average interest rate for the year	4.83%
Weighted average interest rate at year-end	4.05%

The following summarizes the activity of securities sold under agreements to repurchase for the year ended June 30, 2008:

	Beginning Balance	Issuances	Maturities	Ending Balance
GDB Operating Fund	$ 455,000,000	$ 587,204,000	$ 355,004,000	$ 687,200,000

All sales of investments under agreements to repurchase are for fixed terms. In investing the proceeds of securities sold under agreements to repurchase, the Bank's policy is for the term to maturity of investments to be on or before the maturity of the related repurchase agreements. At June 30, 2008, $207.2 million of securities sold under agreements to repurchase mature within one year and approximately $480 million mature during fiscal year 2011.

10. COMMERCIAL PAPER

The Bank issues commercial paper in the U.S. taxable and tax-exempt commercial paper markets, in the Eurodollar commercial paper market, and to corporations that have grants of tax exemption under the Commonwealth's industrial incentives laws. Commercial paper represents unsecured obligations of the Bank.

The following information corresponds to commercial paper:

Carrying amount at June 30, 2008	$ 500,000
Maximum amount outstanding at any month-end	670,081,000
Average amount outstanding during the year	240,390,853
Weighted average interest rate for the year	4.44%
Weighted average interest rate at year-end	2.35%

The following summarizes the commercial paper activity for fiscal year 2008:

	Beginning Balance	Issuances	Maturities	Ending Balance	Due Within One Year
GDB Operating Fund	$ 575,861,000	$ 3,928,018,900	$ 4,503,379,900	$ 500,000	$ 500,000

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, 2008:

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

At June 30, 2008, certificates of indebtedness amounting to approximately $7.5 million contractually mature during the fiscal year ending 2011 and approximately $4.3 million contractually mature during the fiscal year ending June 30, 2012.

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

The activity of bonds payable and other borrowed funds for the year ended June 30, 2008 is as follows:

	Beginning Balance	Debt Issued	Debt Paid	Reductions	Ending Balance	Due Within One Year
Governmental activities:						
Commonwealth appropriation bonds and notes:						
Note payable — affordable Housing Mortgage Subsidy Program Stage 7	$10,198,536	$ -	$(5,236,531)	$ -	$4,962,005	$150,768

	Beginning Balance	Issuances, Net	Reductions	Ending Balance	Due within One Year
Business-type activities:					
GDB Operating Fund:					
Adjustable Refunding Bonds	$ 267,000,000	$ -	$ -	$ 267,000,000	$ -
Senior Notes Series A	885,000,000	884,000,000	(1,769,000,000)		
Senior Notes Series B	702,820,000		(108,800,000)	594,020,000	92,915,000
Senior Notes Series C	81,960,000			81,960,000	
Add (deduct) unamortized premium (discount)	16,809,316	(14,232,400)	10,272,517	12,849,433	289,456
Unrealized gain on fair value hedge	(16,381,656)		16,381,656		
Total GDB Operating Fund	1,937,207,660	869,767,600	(1,851,145,827)	955,829,433	93,204,456
Housing Finance Authority:					
Mortgage Trust III	1,033,973,874		(43,310,000)	990,663,874	43,270,000
Revenue bonds and mortgage-backed certificates:					
Single Family Mortgage Revenue Bonds, Portfolio IX	128,900,000		(4,450,000)	124,450,000	2,305,000
Single Family Mortgage Revenue Bonds, Portfolio X	246,000,000		(21,405,000)	224,595,000	3,395,000
Single family Mortgage Revenue Bonds, Portafolio XI		200,000,000		200,000,000	
Homeownership Mortgage Revenue Bonds 2000	60,220,000		(3,985,000)	56,235,000	820,000
Homeownership Mortgage Revenue Bonds 2001	65,910,000		(4,935,000)	60,975,000	1,340,000
Homeownership Mortgage Revenue Bonds 2003	29,990,000		(1,910,000)	28,080,000	620,000
Mortgage-Backed Certificates 2006 Series A	154,250,378		(11,616,403)	142,633,975	11,697,231
Total revenue bonds and mortgage-backed certificates	685,270,378	200,000,000	(48,301,403)	836,968,975	20,177,231
Subtotal	1,719,244,252	200,000,000	(91,611,403)	1,827,632,849	63,447,231
Notes payable to GDB and other financial institutions	7,844,436		(7,844,436)		
Plus unaccreted premium	666,605		(65,749)	600,856	
Less unaccreted discount and deferred loss on refundings	584,452,590		(35,421,508)	549,031,082	
Total Housing Finance Authority	1,143,302,703	200,000,000	(64,100,080)	1,279,202,623	63,447,231
Tourism Development Fund:					
Participation agreement payable	26,000,000			26,000,000	
Notes payable to GDB	184,971,171	39,229,669	(10,266,376)	213,934,464	873,000
Total Tourism Development Fund	210,971,171	39,229,669	(10,266,376)	239,934,464	873,000
Public Finance Corporation — Note payable to GDB	302,265,107		(198,329,030)	103,936,077	2,612,186
Total	3,593,746,641	1,108,997,269	(2,123,841,313)	2,578,902,597	160,136,873
Less intrafund eliminations	(606,439,515)	(39,229,669)	198,853,144	(446,816,040)	(3,485,186)
Total business-type activities	$ 2,987,307,126	$ 1,069,767,600	$ (1,924,988,169)	$ 2,132,086,557	$ 156,651,687

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2008, are as follows:

Year Ending June 30	GDB Operating Fund Business-Type Activities	
	Principal	Interest
2009	$ 92,915,000	$ 55,323,879
2010	72,450,000	51,275,025
2011	63,295,000	47,919,546
2012	62,665,000	44,773,171
2013	66,205,000	41,536,671
2014-2018	585,450,000	89,109,875
Total	$ 942,980,000	$ 329,938,167

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2008, are as follows:

Year Ending June 30	Housing Finance Authority			
	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2009	$ 150,768	$ 266,090	$ 63,447,231	$ 43,005,625
2010		256,831	65,360,118	42,074,373
2011		256,831	64,622,692	41,093,838
2012		256,831	64,310,592	40,047,571
2013		261,554	63,481,001	39,070,987
2014-2018	391,610	1,047,755	277,478,626	180,058,479
2019-2023	558,528	864,392	230,587,505	151,627,124
2024-2028	1,641	697,886	605,866,959	120,513,498
2029-2033	3,109,459	301,352	306,353,125	62,782,030
2034-2038			67,140,000	13,690,409
2039-2043			18,985,000	957,724
Total	$ 4,212,006	$ 4,209,522	$ 1,827,632,849	$ 734,921,658

Year Ending June 30	Tourism Development Fund Business-Type Activities	
	Principal	Interest
2009	$ 26,000,000	$ 655,417

Governmental Activities

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

Description and Maturity Date	Interest Rate	Amount Outstanding
Note payable Affordable Housing Mortgage Subsidy Program Stage 7: Due each July 1 until July 1, 2031	4.10%-5.25%	$ 4,962,005

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

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

The Note's outstanding balance at June 30, 2008 was $4,962,005 and matures on July 1, 2031. Interest on the unpaid principal amount of the Note is equal to the applicable percentage of the aggregate interest payable on the Public Finance Corporation Bonds. Applicable percentage is the percentage representing the proportion of the amount paid by Public Finance Corporation on the PFC Bonds serviced by the Note to the aggregate amount paid by Public Finance Corporation on all the PFC Bonds issued by Public Finance Corporation under Act No. 164.

Business-Type Activities

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

Description and Maturity Date	Interest Rate	Amount Outstanding
Adjustable Refunding Bonds:		
December 1, 2015	Variable, 9.00% at June 30, 2008	$ 267,000,000
GDB Senior Notes :		
Series B — December 1 until December 1, 2017	4.125%-5.00%	604,139,675
Series C — January 1, 2015	5.25%	84,689,758
Mortgage Trust III:		
Each July 1 and January 1 until July 1, 2011	Zero Coupon	84,128,969
Each July 1 and January 1 until January 1, 2021	Zero Coupon	243,748,495
Single Family Mortgage Revenue Bonds — Portfolio IX		
Each December 1 and June 1 until December 1, 2012	3.85-5.60%	124,450,000
Single Family Mortgage Revenue Bonds — Portfolio X		
Each December 1 and June 1 until December 1, 2037	4.15%-5.65%	224,595,000
Single Family Mortgage Revenue Bonds — Portfolio XI		
Each December 1 and June 1 until December 1, 2039	2.60%-5.45%	200,000,000
Mortgage-Backed Certificates, 2006 Series A		
June 29, 2026 through August 29, 2030	2.955%-6.56%	128,044,660
Homeownership Mortgage Revenue Bonds 2000 Series:		
Each June 1 and December 1 until December 1, 2032	4.25%-5.20%	56,235,000
Homeownership Mortgage Revenue Bonds 2001 Series:		
Each December 1 until December 1, 2012	4.05%-4.70%	7,310,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.45%-5.50%	53,665,000
Homeownership Mortgage Revenue Bonds 2003 Series:		
Each December 1 until December 1, 2013	2.55%-4.00%	4,045,000
June 1, 2013 and each December 1 and June 1 thereafter to December 1, 2033	4.375%-4.875%	24,035,000
Total		$2,106,086,557

The Housing Finance Authority has refunded/in-substance defeased certain bonds by placing internally generated moneys or the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments on the refunded or in-substance defeased bonds. Accordingly, the trust account assets and the related refunded/defeased bonds are not included in the Housing Finance Authority's financial statements. At June 30, 2008, the outstanding balance of refunded/in-substance defeased amounted to $51 million.

Single Family Mortgage Revenue Bonds-Portfolio XI — On June 4, 2008, the Housing Finance Authority issued $200,000,000 of Single Family Mortgage Revenue Bonds - Portfolio XI consisting of serial bonds of $33,770,000 maturing at dates ranging from December 1, 2009 to December 1, 2018 and term bonds of $166,230,000 maturing at various dates through December 1, 2039 (the "Portfolio XI Bonds"). The proceeds from these bonds were used to provide funds for the purchase and transfer to the trustee of mortgage-backed securities guaranteed by GNMA, FNMA or FHLMC (collectively, the "Mortgage Certificates-Portfolio XI"). The Mortgage Certificates- Portfolio XI are backed by pools of eligible mortgage loans made by participating lending institutions to low income persons and families to finance the purchase of qualified single-family residential housing in Puerto Rico. The Portfolio XI Bonds bear interest ranging from 2.60% to 5.45% payable monthly on the first day each month, commencing August 1, 2008.

The Portfolio XI Bonds are subject to special redemption prior to maturity in whole or in part, without premium, as follows (i) on October 15, 2009, from any moneys not used to acquire mortgage certificates and deposited to the credit of the special redemption fund from the acquisition fund, unless such date is extended by the Authority to one or more dates as to all or any portions of such unused moneys; (ii) on or after August 1, 2008, from any principal recoveries deposited on the credit of the special redemption fund; and (iii) on or after September 1, 2009, from any excess revenues deposited to the credit of the special redemption fund.

The term bonds amounting to $24,770,000, $32,090,000, $109,370,000 and maturing on December 1, 2023, December 1, 2028 and December 1, 2039, respectively, are subject to mandatory sinking fund redemption at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, on the dates and in the amounts equal to the applicable sinking fund requirement.

The Portfolio XI Bonds are also subject to optional redemption either in whole or in part on any principal payment date on or after June 1, 2013 at the following redemption prices:

Redemption Period (both dates inclusive)	**Redemption Price**
June 1, 2013 to May 31, 2014	102%
June 1, 2014 to May 31, 2015	101%
June 1, 2015 and thereafter	100%

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

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

The Note bears interest at a fixed rate of 7.5%, which is payable on a quarterly basis, and matures on April 9, 2009. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $26 million as of June 30, 2008.

The activity for noncurrent accounts payable and accrued liabilities during the year ended June 30, 2008 follows:

Balance — beginning of period	$ 32,256,095
Additions	1,527,127
Reductions	(28,967,105)
Balance — end of period	$ 4,816,117

The activity for compensated absences included within accounts payable and accrued liabilities, during the year ended June 30, 2008 follows:

	Beginning Balance	Provision	Reductions	Ending Balance	Due Within One Year
Vacation	$2,983,938	$3,010,688	$3,544,707	$2,449,919	$1,746,262
Sickness	3,027,709	1,955,390	2,544,816	2,438,283	690,783
Total	$6,011,647	$4,966,078	$6,089,523	$4,888,202	$2,437,045

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

13. RESTRICTED NET ASSETS — MORTGAGE LOAN INSURANCE FUND

The Housing Finance Authority is required by law to maintain an allowance for losses on insured mortgage loans, which is computed as a percentage of the outstanding principal balance of the insured mortgage loans. Losses incurred upon the foreclosure and subsequent gains or losses on the disposal of properties are credited/charged to the allowance for losses on mortgage loan insurance. At June 30, 2008, the Housing Finance Authority had restricted net assets for such purposes of approximately $54 million.

14. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

At June 30, 2008, 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	$ 131,362
Private sector	34,888
Total	$ 166,250
Standby letters of credit:	
Public sector	$ 450,413
Private sector	125,040
Total	$ 575,453
Commitments to extend credit — Public sector	$ 1,888,169

Following is the activity of the allowance for losses on guarantees and letters of credit for the year ended June 30, 2008:

	Beginning Balance	Provision (Credit)	Payments	Ending Balance	Due Within One Year
GDB Operating Fund	$ 1,000,000	$ -	$ -	$ 1,000,000	$ -
Tourism Development Fund	1,462,924	(192,872)		1,270,052	
Puerto Rico Development Fund	30,419	1,242,721	(429,797)	843,343	843,343
Total	$ 2,493,343	$ 1,049,849	$ (429,797)	$ 3,113,395	$843,343

15. RETIREMENT SYSTEM

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

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

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

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

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

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

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

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

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

Total employee contributions for the defined benefit pension plan and the defined contribution plan during the year ended June 30, 2008 amounted to approximately $1,090,000 and $673,000, respectively. The Bank's contributions during the years ended June 30, 2008, 2007, and 2006 amounted to approximately $1,982,000, $1,787,000, and $2,242,000, 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.

During the fiscal year 2007, the Bank's board of directors authorized an early retirement program for certain Bank's employees, subject to the approval of the Legislature and the Governor of the Commonwealth. On December 12, 2007, a bill approved by the Legislature was signed into law by the Governor of the Commonwealth.

The incremental costs of the early retirement program amounted to $40.2 million, which have been presented as a special item in the accompanying statements of activities and of revenues, expenses, and changes in fund balances. These costs consisted principally of the incremental actuarial costs of retiring earlier than at the normal retirement age, a lump-sum payment of 50% of the annual salary of the retiring employees, and the estimated liability to cover costs of life and cancer insurance until death and of medical insurance for such employees until reaching the age of 64.

16. COMMITMENTS AND CONTINGENCIES

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

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

Rent charged to operations in fiscal year 2008 amounted to approximately $2.1 million. At June 30, 2008, the minimum annual future rentals under noncancelable leases are approximately as follows:

Year Ending June 30	Amount
2009	$ 2,249,000
2010	2,263,000
2011	2,278,000
2012	1,850,000
2013	1,850,000
Thereafter	45,625,000
Total	$ 56,115,000

Cooperative Development Investment Fund — On August 18, 2002, the Legislature approved Law No. 198, which creates the Cooperative Development Investment Fund. The purpose of this fund is to promote the development of cooperative entities. This fund will be capitalized through contributions to be provided by the Bank up to $25 million to be matched by cooperative entities. As of June 30, 2008, the Bank has contributed $14.7 million to the Cooperative Development Investment Fund, $1.7 million of which were contributed during the year ended June 30, 2008.

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

Loan Guarantees — The Development Fund has entered into an agreement (the "Agreement") with Economic Development Bank for Puerto Rico (EDB) whereby the Development Fund would guarantee a portion of loans granted by EDB under a government program named The Key for Your Business (the "Program"). Under the Agreement, the Development Fund would assign $10 million of its capital for the program. The Development Fund guarantees one-third of the outstanding principal balance of each loan plus accrued interest and certain other charges. The Development Fund charges one percent of the loan amount as guarantee fee and no loan can exceed $50,000. At June 30, 2008, outstanding guarantees amounted to approximately $9,997,000, and the allowance for losses on guarantees amounted to approximately $843,000. On August 28, 2008, the Development Fund and EDB amended the Agreement to increase from $10 million to $15 million the Development Fund's capital designated for the program.

Custodial Activities of Enterprise Funds — At June 30, 2008, the Housing Finance Authority was custodian of approximately $177,000 in restricted funds of CRUV. As of June 30, 2008, such funds are deposited with the Bank. These funds are not owned by the Housing Finance Authority's enterprise funds and thus are not reflected in the accompanying basic financial statements.

Loan Sales and Securitization Activities — On July 13, 1992, the Housing Bank entered into an agreement to securitize approximately $20.7 million of mortgage loans into a FNMA certificate. The Housing Finance Authority agreed to repurchase, at a price of par plus accrued interest, each and every mortgage loan backing up such security certificate that become delinquent for 120 days or more. As of June 30, 2008, the aggregate outstanding principal balance of the loans pooled into the FNMA certificate amounted to approximately $702,000.

Mortgage Loan Servicing Activities — The Housing Finance Authority acts as servicer for a number of mortgage loans owned by other investors. The servicing is generally subcontracted to a third party. As of June 30, 2008, the principal balance of the mortgage loans serviced for others is approximately as follows:

Popular Mortgage, Inc.	$ 13,821,000
R-G Mortgage, Inc.	7,912,000
CRUV or its successor without guaranteed mortgage loan payments	54,000
Total	$ 21,787,000

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

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

The Public Finance Corporation has issued approximately $5.9 billion of Commonwealth appropriation bonds (the "Bonds") maturing at various dates through 2032. The proceeds of the Bonds, except for approximately $1.7 billion, have been used to provide the necessary funds to purchase from the Bank separate promissory notes of the Department of the Treasury of the Commonwealth, and certain of its instrumentalities and public corporations (the "Promissory Notes"). The $1.7 billion referred to above were used to refund a portion of certain bonds issued by the Public Finance Corporation (also no-commitment debt) between fiscal years 1995 and 2000. The outstanding balance of the Bonds at June 30, 2008 amounted to approximately $1.7 billion.

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

On May 13, 2006, the Legislature enacted Act No. 91, which created the FIA Fund, as a separate fund to be administered by the Department of the Treasury of the Commonwealth and the Bank. The Fund will generate funds from collections of the first one percent of the sales and consumption tax approved by the Legislature. Such funds shall be used for, among other, paying, refinancing or restructuring the extra-constitutional debt of the Commonwealth that was outstanding at June 30, 2006. The Bonds are considered extra-constitutional debt, and, accordingly, will be paid from collections received by the FIA Fund. Should the amounts generated by Act. No. 91 are not sufficient to cover debt service of the extra-constitutional debt, such shortfall is still subject to legislative appropriations.

Act No. 91 was amended by Act No. 291, enacted on December 26, 2006, and by Act No. 56, enacted on approved July 6, 2007, to create the Sales Tax Corporation as an independent instrumentality of the Commonwealth. The Sales Tax Corporation was created for the purpose of financing the payment, retirement or defeasance of the extra-constitutional of the Commonwealth, outstanding as of June 30, 2006, which are payable to the Bank and the Public Finance Corporation.

Act 91, as amended, provides that the Sales Tax Corporation will hold and own the FIA Fund, and that each fiscal-year the first one percent of the Commonwealth's share of the sales and consumption tax, will be deposited in the FIA Fund, and used to repay the Commonwealth's extra constitutional debt as of June 30, 2006.

On July 31, 2007, pursuant to Act 91, the Sales Tax Corporation issued the 2007 Series A bonds for $2,668 million and the 2007 Series B bonds for $1,333 million whose net proceeds were used for the payment and retirement of a portion of the extra-constitutional debt owed to the Bank and to the Public Finance Corporation. Therefore, the outstanding balance of the Bonds was reduced by approximately $1.3 billion.

Also the Sales Tax Corporation issued on December 20, 2007, the 2007 Series C bonds for approximately $500 million, and on June 26, 2008, the 2008 Series A bonds for $737 million whose net proceeds were used for to the payment and retirement of certain of the Bonds. As a result, the no-commitment debt of the Public Finance Corporation was further reduced by approximately $1.1 billion.

Certain bonds of the Housing Finance Authority are considered no-commitment debt as more fully described in Note 2. At June 30, 2008, 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	$ 11,981,234
Restricted liabilities (no-commitment debt)	10,612,300
Restricted fund balance	$ 1,368,934
Excess of fund expenses over revenues	$ 129,264

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 $597 million at June 30, 2008.

In addition, the Housing Finance Authority, as a public agency is authorized to administer the U.S. Housing Act Section 8 Programs in Puerto Rico. The revenues and expenses of such federal financial assistance are accounted for as a major governmental fund under HUD Programs. Revenues and expenditures related to the administration of the U.S. Housing Act Section 8 Programs amounted to $115,587,371 for the year ended June 30, 2008. This amount includes approximately $4,994,000 of administrative fees for services performed as contract administrator, which are reimbursed by the U.S. Department of Housing and Urban Development.

18. 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, 2008, 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, repurchase and resale agreements, deposits placed with banks, certificates of deposit, commercial paper, and accrued interest receivable and payable have been valued at the carrying amounts reflected in the statement of net assets, as these are reasonable estimates of fair value given the relatively short period of time between origination of the instruments and their expected realization.

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

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

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

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

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

The following table presents the carrying amounts and estimated fair values of the Bank's financial instruments at June 30, 2008:

	Reported Amount	Fair Value
	(In millions)	
Financial assets:		
Cash and due from banks	$ 87	$ 87
Federal funds sold	317	317
Deposits placed with banks	1,616	1,616
Due from federal government	21	21
Investments and investment contracts	4,406	4,350
Loans receivable to public sector	4,989	4,983
Accrued interest receivable and other receivables	266	266
Financial liabilities:		
Demand deposits	2,720	2,720
Certificates of deposit	4,283	4,290
Certificates of indebtedness	12	12
Securities sold under agreements to repurchase	687	706
Commercial paper	1	1
Accounts payable and accrued liabilities	85	85
Accrued interest payable	28	28
Bonds, notes, and participation agreement payable	2,137	2,157

19. INTERFUND BALANCES AND TRANSFERS

The following table is a summary of the interfund balances as of June 30, 2008 between governmental funds and enterprise funds:

Receivable by	Payable by	Purpose	Amount
Governmental fund:	**Enterprise fund:**		
New Secure Housing Program	GDB Operating Fund	Demand deposits and accrued interest	$ 398,884
HUD Programs	GDB Operating Fund	Demand deposits and accrued interest	656,852
Other nonmajor funds (AHMSP Law 124)	GDB Operating Fund	Investment agreements and accrued interest	573,203
Other nonmajor funds (AHMSP Law 124)	GDB Operating Fund	Certificates of deposit and accrued interest	2,510,136
Other nonmajor funds (AHMSP Law 124)	GDB Operating Fund	Demand deposits and accrued interest	214,584
AHMSP-Stage 8	GDB Operating Fund	Demand deposits and accrued interest	45
AHMSP-Stage 8	GDB Operating Fund	Investment agreements and accrued interest	13,489,552
Other nonmajor funds (Special Obligation Refunding Bonds)	GDB Operating Fund	Certificates of deposit and accrued interest	5,298,550
Other nonmajor funds (Special Obligation Refunding Bonds)	GDB Operating Fund	Demand deposits and accrued interest	438,067
The Key for your Home Program	GDB Operating Fund	Demand deposits and accrued interest	1,186,830
Subtotal and balance carried forward			24,766,703

Receivable by	Payable by	Purpose	Amount
Balance brought forward			$ 24,766,703
Governmental fund:	**Enterprise fund:**		
New Secure Housing Program	Housing Finance Authority	Reimbursement of expenditures	449,936
Other Nonmajor Funds (Special Obligation Refunding Bonds)	Housing Finance Authority	Reimbursement of loan originations	1,513,524
The Key for Your Home Program	Housing Finance Authority	Advances	30,000
AHMSP-Stage 7	Housing Finance Authority	Reimbursement of expenditures	2
Subtotal			1,993,462
Total			26,760,165
Enterprise fund:	**Governmental fund:**		
GDB Operating Fund	New Secure Housing Program	Loans payable and accrued interest	(44,189,766)
GDB Operating Fund	AHMSP-Stage 7	Securities purchased under agreements to resell and accrued interest	(52,659,824)
GDB Operating Fund	AHMSP-Stage 9	Loans payable and accrued interest	(354,186)
GDB Operating Fund	Other nonmajor funds (AHMSP Stage 10)	Loans payable and accrued interest	(14,897,601)
Housing Finance Authority	AHMSP- Stage 7	Reimbursement of expenditures	(5,263,768)
Housing Finance Authority	Other nonmajor funds (AHMSP Law 124)	Reimbursement of expenditures	(569,366)
Housing Finance Authority	The Key for your Home	Reimbursement of expenditures	(117,190)
Housing Finance Authority	HUD Programs	Reimbursement of loan origination	(736,688)
Total			(118,788,389)
Total internal balances — net			$ (92,028,224)

Receivable by Fund	Payable by Fund	Purpose	Amount
Governmental fund:	**Governmental fund:**		
Other nonmajor funds (Special Obligation Refunding Bonds)	AHMSP - Stage 7	Advances	$ 11,581,631
Total balance among governmental funds eliminated			$ 11,581,631
Enterprise funds:	**Enterprise funds:**		
Housing Finance Authority	GDB Operating Fund	Demand deposits and accrued interest	$ 4,506,596
Development Fund	GDB Operating Fund	Demand deposits and accrued interest	40,293,387
Tourism Development Fund	GDB Operating Fund	Demand deposits and accrued interest	11,380,530
Public Finance Corporation	GDB Operating Fund	Demand deposits and accrued interest	1,260,680
Other Nonmajor (Education Assistance Corporation)	GDB Operating Fund	Demand deposits and accrued interest	2,364,960
Other Nonmajor (JMB Institute)	GDB Operating Fund	Demand deposits and accrued interest	42,593
Housing Finance Authority	GDB Operating Fund	Certificates of deposit and accrued interest	393,454,423
Tourism Development Fund	GDB Operating Fund	Certificates of deposit and accrued interest	45,257,688
Housing Finance Authority	GDB Operating Fund	Guaranteed investment contracts and accrued interest	188,931,031
GDB Operating Fund	Housing Finance Authority	Bonds payable	128,945,499
GDB Operating Fund	Tourism Development Fund	Loans receivable and accrued interest	214,622,764
GDB Operating Fund	Public Finance Corporation	Loans receivable and accrued interest	111,097,074
Total balance among enterprise funds eliminated			$1,142,157,225

The following table is a summary of interfund transfers for the year ended June 30, 2008:

Transfer Out	Transfer In	Transfer for	Amount
Governmental Funds:	**Governmental Funds:**		
Other Nonmajor Funds (AHMSP Law 124)	The Key for your Home	Subsidy payments	$ 38,850,091
Other Nonmajor Funds (AHMSP Law 124)	Other Nonmajor Funds (AHMSP Stage 11)	Subsidy payments	37,080,001
AHMSP- Stage 8	Other Nonmajor Funds (AHMSP Law 124)	Release of excess funds	79,534
Enterprise Funds:	**Governmental Funds:**		
Housing Finance Authority	Other Nonmajor Funds (AHMSP Mortgage Backed Certificates)	Subsidy payments	1,881,529

Transfer Out	Transfer In	Transfer for	Amount
Governmental Funds:	**Enterprise Funds:**		
Other Nonmajor Funds (AHMSP Stage 10)	Housing Finance Authority	Debt services payments	$ 2,776,210
Other Nonmajor Funds (AHMSP Law 124)	Housing Finance Authority	Issuance cost, escrow deposits and subsidy payments	2,754,716
AHMSP Stage 9	Housing Finance Authority	Debt service payments	546,956
Other Nonmajor Funds (AHMSP Portfolio III)	Housing Finance Authority	Debt service payments	38,500
Enterprise Funds:	**Enterprise Funds:**		
Housing Finance Authority	Housing Finance Authority	Contribution	20,000,000
Housing Finance Authority	Housing Finance Authority	Residual net assets	1,044,872
Housing Finance Authority	Housing Finance Authority	Subsidy payments	436,194

20. SUBSEQUENT EVENTS

Adjustable Refunding Bonds — On August 1, 2008, the Bank repurchased the $267 million outstanding balance of its adjustable refunding bonds as a result of significant increases in the interest rate of these auction rate bonds. The Bank expects to reissue these bonds at a fixed rate during fiscal year 2009.

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

Bank's Exposure to American International Group — The Bank, in connection with the issuance of certain bonds issued by the Housing Finance Authority, has entered into certain nonparticipating investment contracts with counterparties that are rated, at the time of the transaction, in accordance with the Bank's investment policies (see Note 4). At June 30, 2008, the Bank had nonparticipating investment contracts outstanding with AIG Matched Funding Corp. (AIGMF) amounting to $188,931,032.

Subsequent to June 30, 2008, the credit rating of AIGMF was lowered. The Bank is currently evaluating, with its financial advisors and legal counsel, various alternatives for these nonparticipating investment contracts, including but not limited to, unwinding these nonparticipating investment contracts and defease the related bonds issued by the Housing Finance Authority.

Commonwealth's Tax Receivable Anticipation Bonds — On September 9, 2008, October 10, 2008, October 17, 2008, November 26, 2008 and December 1, 2008, the Bank purchased an aggregate principal amount of $1 billion of Tax Receivable Anticipation Bonds of the Commonwealth of Puerto Rico, Series 2008A issued in four separate tranches in the amounts of $300,000,000, $50,000,000, $50,000,000, $250,000,000, and $350,000,000, respectively. These bonds are payable from the revenue generated from the collections of certain Commonwealth's delinquent tax receivables.

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[FORM OF OPINION OF FIDDLER GONZALEZ & RODRIGUEZ, P.S.C.,
SPECIAL TAX COUNSEL]

January 29, 2009

Government Development Bank for Puerto Rico
De Diego Avenue, Stop 22
San Juan, Puerto Rico 00940

Ladies and Gentlemen:

In connection with the issuance on the date hereof by Government Development Bank for Puerto Rico of its $250,000,000 Senior Notes, 2009 Series A (the "Series A Notes"), you have requested our opinion with respect to the treatment for Puerto Rico tax purposes of the ownership and disposition of the Series A Notes.

We have examined Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended (the "Act"), creating Government Development Bank for Puerto Rico (the "Bank") and Resolution No. EC-1565, adopted by the Bank on February 2, 2006, as amended by Resolution No. ___ adopted by the Bank on January 26, 2009 authorizing the issuance and delivery of the Series A Notes. The Bank is a body corporate and politic constituting a public corporation and governmental instrumentality of Commonwealth of Puerto Rico exercising public and essential governmental functions.

From such an examination, we are of the opinion that:

1. Interest on the Series A Notes is exempt from Puerto Rico income and withholdings taxes, including the alternative minimum tax imposed by Section 1017 of the Puerto Rico Internal Revenue Code of 1994, as amended (the "P.R. Code").

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

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

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

5. The Series A Notes will be considered an obligation of an instrumentality of Puerto Rico for purposes of (i) the non-recognition of gain rules of Section 1112(f)(2)(A) of the P.R. Code applicable to

certain involuntary conversions and (ii) the exemption from the surtax imposed by Section 1102 of the P.R. Code available to corporations and partnerships that have a certain percentage of their net income invested in obligations of instrumentalities of Puerto Rico and certain other investments.

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

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

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

This opinion is limited to the above, and we express no other opinion regarding Puerto Rico tax consequences arising from ownership or disposition of the Series A Notes. This letter is furnished by us solely for the benefit of the Bank and the holders from time to time of the Series A Notes and may not be relied upon by any other person.

We hereby consent to the inclusion of this opinion as *Appendix II* to the official statement. We further consent to the reference made to us under the captions "Summary-Tax Matters," "Tax Matters" and "Legal Matters" in the official statement.

Respectfully submitted,

[To be signed, "Fiddler González & Rodríguez, P.S.C."]

[FORM OF OPINION OF SIDLEY AUSTIN LLP, BOND COUNSEL]

January 29, 2009

Government Development Bank for Puerto Rico
San Juan, Puerto Rico

Gentlemen:

We have examined Act No. 17 of the Legislature of Puerto Rico, approved September 23, 1948, as amended, creating Government Development Bank for Puerto Rico (hereinafter called "Development Bank") as a corporation and a governmental instrumentality of the Commonwealth of Puerto Rico (hereinafter called the "Commonwealth"). We have also examined certified copies of the proceedings of the Board of Directors of Development Bank authorizing the execution and delivery of a Trust Indenture, dated as of February 17, 2006, as amended, most recently by Supplement Number 5 to Indenture, dated as of January 29, 2009 (collectively, the "Trust Indenture"), by and between Development Bank and Banco Popular de Puerto Rico, trustee (the "Trustee"), and other proofs submitted relative to the authorization, issuance and sale of the following described notes (the "2009 Series A Notes"):

$250,000,000
GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
Senior Notes, 2009 Series A
Dated the date hereof.

Maturing in such principal amounts and subject to redemption, all as set forth in the Trust Indenture, and bearing interest at the rates set forth in the resolution of Development Bank awarding the 2009 Series A Notes. The proceeds of the 2009 Series A Notes will be used by Development Bank for authorized corporate purposes.

Pursuant to the Trust Indenture, Development Bank is authorized to issue additional securities from time to time upon the terms and conditions set forth therein, and any such securities will be on a parity with the 2009 Series A Notes and all other securities issued under the Trust Indenture (all such additional securities together with the 2009 Series A Notes being herein collectively called the "Notes").

The principal of and the interest on the 2009 Series A Notes and all other securities issued by Development Bank under the Trust Indenture are payable from any available funds of Development Bank, all as provided in the Trust Indenture.

We have also examined one of the 2009 Series A Notes as executed and authenticated.

From such examination we are of the opinion that:

1. Said Act No. 17, as amended, is valid.

2. Said proceedings have been validly and legally taken.

3. The 2009 Series A Notes have been duly authorized and issued and are valid and binding obligations of Development Bank, payable from any available funds of Development Bank, which funds

have been pledged to the payment of the principal of and interest on all Notes issued under the Trust Indenture, including the 2009 Series A Notes.

4. Under the provisions of the Acts of Congress now in force and under existing regulations, rulings and court decisions, the 2009 Series A Notes and the interest thereon are exempt from state, Commonwealth and local income taxation.

We have also reviewed the information under the heading "TAX MATTERS – United States Taxation" in the Official Statement, dated January 27, 2009 relating to the 2009 Series A Notes and such information is a fair and accurate summary of the matters referred to therein and is true, correct and complete in all material respects, and does not omit any material fact which, in our opinion, should be or should have been included or referred to therein so as to make such information not misleading. The reference to said Official Statement is to the document examined by us upon delivery of the 2009 Series A Notes, and not to any physical or electronic reproduction other than a true copy.

Respectfully submitted,

[To be signed, "Sidley Austin LLP"]