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

Basic Financial Statements and Required Supplementary Information

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

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

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Independent Auditors' Report

The Board of Directors
Economic Development Bank for Puerto Rico:

We have audited the accompanying basic financial statements of the business-type activities, the major fund and the remaining fund information of Economic Development Bank for Puerto Rico (the Bank), a component unit of the Commonwealth of Puerto Rico, as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Bank's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities, its major fund and the remaining fund information of Economic Development Bank for Puerto Rico as of June 30, 2009 and 2008, and the respective changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 through 9 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

October 14, 2009

Stamp No. 2446398 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

This financial discussion contains an analysis of the statements of net assets of the Economic Development Bank for Puerto Rico (the Bank) as of June 30, 2009 and 2008, and its changes in financial position for the years then ended. The information included in this section should be read in conjunction with the basic financial statements of the Bank and its notes.

The business-type activities of the Bank are accounted as enterprise funds, which include the activities of the Bank's principal operating fund and those of the Bank's blended component unit, Economic Development Bank Capital Investment (EDBCI). EDBCI was created to account for and focus separately on the activities and investments in local equity capital and venture capital funds, formerly addressed within the Bank. The required financial statements for an enterprise fund are as follows: statement of net assets; statement of revenue, expenses, and changes in net assets; and statement of cash flows. These financial statements report information using accounting methods similar to those used by private financial institutions.

The statement of net assets includes all the Bank's assets and liabilities, classified as current, noncurrent, capital assets, and net assets. This statement provides information as of a specific date about the nature and amount of investments in resources (assets) and the obligations to creditors (liabilities). It also provides the basis for evaluating the Bank's capital structure.

The statement of revenue, expenses, and changes in net assets includes revenue earned and expenses incurred by the Bank for a specific period of time (12 operating months beginning on July 1 and ending on June 30). This statement measures the results of the Bank's operation and can be used to determine whether the Bank has successfully recovered all its costs through user fees and other charges. This statement distinguishes interest and noninterest revenue and expenses.

The statement of cash flows reports cash receipts, cash payments, and changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities. This statement provides information about the Bank's cash flows and how cash is obtained, used, and what was the change in cash balance during the reporting period beginning on July 1 and ending on June 30.

Financial Highlights

- Net interest income from investments increased by $7.8 million or 163.5%, from $4.8 million in 2008 to $12.6 million in 2009.
- Loan portfolio increased by 13.1%, from $230.6 million in 2008 to $260.7 million in 2009.
- Allowance for loan losses increased by $15.7 million or 49.2%, from $31.9 million in 2008 to $47.6 million in 2009.
- Net income decreased by $21.1 million or 411.6%, from $5.1 million net income in 2008 to a net loss of $16 million in 2009.

Comparison of 2009 and 2008 Assets, Liabilities, and Net Assets

Condensed financial information on assets, liabilities, and net assets is presented below (dollar amounts in thousands):

Net assets		2009	2008	Increase (decrease) Amount	Increase (decrease) Percentage
Current assets	$	232,356	326,658	(94,302)	(28.87)%
Noncurrent assets		728,201	985,829	(257,628)	(26.13)
Total assets	$	960,557	1,312,487	(351,930)	(26.81)
Current liabilities	$	435,815	449,521	(13,706)	(3.05)
Noncurrent liabilities		411,682	733,888	(322,206)	(43.90)
Total liabilities		847,497	1,183,409	(335,912)	(28.39)
Net assets:					
Invested in capital assets, net of related debt		(1,241)	(1,390)	149	(10.72)
Restricted for special loan programs		9,227	9,266	(39)	(0.42)
Unrestricted		105,074	121,202	(16,128)	(13.31)
		113,060	129,078	(16,018)	(12.41)
Total liabilities and net assets	$	960,557	1,312,487	(351,930)	(26.81)

At June 30, 2009, the Bank's total assets were $960.6 million ($307.9 million from EDBCI) compared to $1,312.5 million at June 30, 2008. The decrease of $351.9 million represents 26.8% of the 2008 total assets balance.

Total loan portfolio increased by 13% when compared to balances as of June 30, 2008. The main reason for this growth was the continued strategic effort by management to increase lending through direct loans, new loan programs, and participations with the commercial banking industry. Loan disbursements increased from $104.1 million in 2008 to $107.1 million in 2009, while principal collected on loans decreased from $72.1 million during fiscal year 2008 to $68.2 million for fiscal year 2009. The related allowance for loan losses increased by $15.7 million or 49.2% of the 2008 balance, mainly due to an increased delinquency resulting from the negative economic conditions experienced during the period. The net loan portfolio increased by $14.4 million.

Interest-bearing deposits with other banks, commercial paper, investments, and securities purchased under agreements to resell decreased by $356.8 million when compared to balances as of June 30, 2008, mainly due to the maturity of $322 million in promissory notes issued.

At June 30, 2009, the Bank's total liabilities were $847.5 million compared to $1,183.4 million at June 30, 2008. The decrease of $335.9 million represents 28.4% of the 2008 total liabilities. This decrease is mainly due to a $322 million decrease in promissory notes.

Total time deposits were $351.7 million as of June 30, 2009. Time deposits consist primarily of certificates of deposit of public funds from other governmental institutions, which totaled $245.8 million. Deposits from other financial institutions were $106 million. Total time deposits decreased by $25.7 million. As of year-end, the total promissory notes and other note payable balance was $304.2 million.

Securities sold under agreement to repurchase increased by $20.1 million, from $164.4 million in 2008 to $184.5 million in 2009. Fluctuations in these securities are due to specific market conditions, which provide the Bank with funds and investment opportunities to generate net revenue.

The Bank had net assets of $113.1 million at June 30, 2009, a decrease of $16 million or 12.4% when compared to June 30, 2008. Additional information about net assets composition is presented in note 11 to the basic financial statements.

Comparison of 2009 and 2008 Revenue, Expenses, and Changes in Net Assets

Condensed financial information on revenue, expenses, and changes in net assets is presented below (in thousands):

Revenue, expenses, and changes in net assets	2009	2008	Increase (decrease) Amount	Increase (decrease) Percentage
Interest income from loans	$ 10,320	13,718	(3,398)	(24.77)%
Interest income from investments	58,002	62,500	(4,498)	(7.20)
Total interest income	68,322	76,218	(7,896)	(10.36)
Total noninterest income (loss)	(2,418)	1,163	(3,581)	(307.91)
Total operating revenue	65,904	77,381	(11,477)	(14.83)
Provision for loan losses	23,675	1,700	21,975	1,292.65
Total interest expense	45,361	57,703	(12,342)	(21.39)
Total noninterest expenses	12,886	12,837	49	0.38
Total operating expenses	81,922	72,240	9,682	13.40
Operating income and change in net assets	$ (16,018)	5,141	(21,159)	(411.57)

For the year ended June 30, 2009, the Bank presents an operating loss of $16 million when compared to the operating income of $5.1 million for the year ended June 30, 2008. The decrease in operating income resulted from the net effect of the following:

(a) Interest Income

Total interest income decreased by approximately 10.4% or $7.9 million, from $76.2 million in 2008 to $68.3 million in 2009. This decrease in interest income was mainly the result of decreased transaction volumes during the fiscal year.

(b) Noninterest Income

Noninterest income decreased by approximately $3.6 million, from $1.2 million in fiscal year 2008 to $(2.4) million in 2009. This decrease was due to a decrease in the net realized and unrealized gains on investment of $2.6 million and a decrease in other income of $1 million.

The decrease in the net realized and unrealized gains on investment results from the combined effect of a $2.4 million increase in unrealized losses of investment securities, a $115,000 increase in the allowance for venture capital investments and a $24,000 decrease in the gain from sale of investments. The decrease in other income results mainly from a $512 thousand decrease in recoveries from loans acquired by the Bank from the former Farm Credit Guarantee Fund and the Guaranteed Loan Fund for Eligible Business previously charged off, and a $348,000 decrease in gains from the sale of foreclosed real estate.

(c) Provision for Loan Losses

Compared to the 2008 figures, the provision for loan losses shows an increase of $22 million. This change is mainly due to the significant deterioration of the local economy and the disruptions in the financial markets with its effects on the commercial lending since the beginning of the fiscal year ended June 30, 2009. Impaired loans requiring an allowance for losses increased by $9.4 million, from $46.2 million in 2008 to $55.6 million in 2009, and the specific reserve for these increased by $5.8 million, from $16.1 million to $21.9 million. As a percentage of the total loans portfolio, impaired loans represent 31.4% and 28.4% at June 30, 2009 and 2008, respectively. Loans charged off during fiscal year 2009 increased by $3.6 million when compared to 2008, from $5 million in 2008 to $8.6 million in 2009.

Loan collections decreased from $72.1 million during fiscal year 2008 to $68.2 million for fiscal year 2009. As a percentage of the total loans portfolio, the allowance for loan losses represents 18.3% and 13.9% at June 30, 2009 and 2008, respectively.

(d) Interest Expense

Total interest expense decreased by 21.4% or $12.3 million, from $57.7 million in 2008 to $45.4 million in 2009. This decrease in interest expense was the result of decreased transaction volumes.

(e) Noninterest Expenses

Noninterest expenses increased by approximately $50,000 or 0.4% during fiscal year 2009. This increase in noninterest expenses resulted from the net effect of the following:

- Professional fees decreased by 21.2% or $165,000, from approximately $781,000 in 2008 to approximately $616,000 in 2009. The decrease is mainly due to a decrease in temporary services and in legal professional services during 2009.
- Advertising expense decreased by 63.9% or $303,000, from approximately $474,000 in 2008 to approximately $171,000 in 2009.

- All other noninterest expenses increased by approximately $529,000 as compared to fiscal year 2008. This is mainly the result of the net effect of an increase of approximately $550,000 in the provision for legal claims, an increase in salaries and employee benefits of approximately $268,000, a decrease of $73,000 in occupancy and related expense (including depreciation), and a decrease of approximately $229,000 in other miscellaneous expenses.

Comparison of 2008 and 2007 Assets, Liabilities, and Net Assets

Condensed financial information on assets, liabilities, and net assets is presented below (dollar amounts in thousands):

Net assets		2008	2007	Increase (decrease) Amount	Increase (decrease) Percentage
Current assets	$	326,658	248,289	78,369	31.56%
Noncurrent assets		985,829	840,199	145,630	17.33
Total assets	$	1,312,487	1,088,488	223,999	20.58
Current liabilities	$	449,521	410,928	38,593	9.39
Noncurrent liabilities		733,888	553,622	180,266	32.56
Total liabilities		1,183,409	964,550	218,859	22.69
Net assets:					
Invested in capital assets, net of related debt		(1,390)	(1,675)	285	(17.01)
Restricted for special loan programs		9,266	9,665	(399)	(4.13)
Unrestricted		121,202	115,948	5,254	4.53
		129,078	123,938	5,140	4.15
Total liabilities and net assets	$	1,312,487	1,088,488	223,999	20.58

At June 30, 2008, the Bank's total assets were $1,312.5 million ($308.7 million from EDBCI) compared to $1,088.5 million at June 30, 2007. The increase of $224 million represents 20.6% of the 2007 total assets balance.

Total loan portfolio increased by 13% when compared to balances as of June 30, 2007. The main reason for this growth was a strategic effort by management to increase lending through direct loans, new loan programs, and participations with the commercial banking industry. Loan disbursements increased from $70.4 million in 2007 to $104.1 million in 2008, while principal collected on loans increased from $60.7 million during fiscal year 2007 to $72.1 million for fiscal year 2008. The related allowance for loan losses maintained a similar level, experiencing a decrease of approximately 6.6% for the period. The net loan portfolio increased by $28.5 million.

Interest-bearing deposits with other banks, commercial paper, investments, and securities purchased under agreements to resell increased by $194.2 million when compared to balances as of June 30, 2007, mainly due to a $275 million increase in funds raised through a new promissory notes issuance.

(Continued)

At June 30, 2008, the Bank's total liabilities were $1,183.4 million compared to $964.6 million at June 30, 2007. The increase of $218.8 million represents 22.7% of the 2007 total liabilities. This increase is mainly due to a $115 million net increase in promissory notes.

Total time deposits were $377.5 million as of June 30, 2008. Time deposits consist primarily of certificates of deposit of public funds from other governmental institutions, which totaled $329.3 million. Deposits from other financial institutions were $48.2 million. Total time deposits increased by $89.6 million. As of year-end, the total promissory notes and other note payable balance was $626.5 million.

Securities sold under agreement to repurchase increased by $14.5 million, from $149.9 million in 2007 to $164.4 million in 2008. Fluctuations in these securities are due to specific market conditions, which provide the Bank with funds and investment opportunities to generate net revenues.

The Bank had net assets of $129.1 million at June 30, 2008, an increase of $5.1 million or 4.1% when compared to June 30, 2007. Additional information about net assets composition is presented in note 11 to the basic financial statements.

Comparison of 2008 and 2007 Revenue, Expenses, and Changes in Net Assets

Condensed financial information on revenue, expenses, and changes in net assets is presented below (in thousands):

Revenue, expenses, and changes in net assets		2008	2007	Increase (decrease) Amount	Increase (decrease) Percentage
Interest income from loans	$	13,718	14,307	(589)	(4.12)%
Interest income from investments		62,500	52,486	10,014	19.08
Total interest income		76,218	66,793	9,425	14.11
Total noninterest income		1,163	4,726	(3,563)	(75.39)
Total operating revenue		77,381	71,519	5,862	8.20
Provision for loan losses		1,700	1,200	500	41.67
Total interest expense		57,703	52,475	5,228	9.96
Total noninterest expenses		12,837	12,807	30	0.23
Total operating expenses		72,240	66,482	5,758	8.66
Operating income and change in net assets	$	5,141	5,037	104	2.06

For the year ended June 30, 2008, the Bank yielded an operating income of $5.1 million when compared to the operating income of $5 million for the year ended June 30, 2007. The increase in operating income resulted from the net effect of the following:

(a) Interest Income

Total interest income increased by approximately 14.1% or $9.4 million, from $66.8 million in 2007 to $76.2 million in 2008. This increase in interest income was mainly the result of increased transaction volumes during the fiscal year.

(b) Noninterest Income

Noninterest income decreased by approximately $3.5 million, from $4.7 million in fiscal year 2007 to $1.2 million in 2008. This decrease was due to a decrease in the net realized and unrealized gains on investment of $3.5 million.

The decrease in the net realized and unrealized gains on investment results from the combined effect of a $2.0 million increase in unrealized losses of investment securities, a $1.6 million increase in the allowance for venture capital investments and a $77,000 increase in the gain from sale of investments.

(c) Provision for Loan Losses

Compared to the 2007 figures, the provision for loan losses shows an increase of $500,000. This change is mainly due to management's periodic review of the allowance for loan losses. Impaired loans requiring an allowance for losses increased by $5.9 million, from $40.3 million to $46.2 million, while the specific reserve for these decreased by $521,000, from $16.6 million to $16.1 million. As a percentage of the total loans portfolio, impaired loans represent 28.4% and 21.9% at June 30, 2008 and 2007, respectively. Loans charged off during fiscal year 2008 increased by $3,028,000 when compared to 2007, from $2,013,000 in 2007 to $5,041,000 in 2008.

Loan collections increased from $60.7 million during fiscal year 2007 to $72.1 million for fiscal year 2008. As a percentage of the total loans portfolio, the allowance for loan losses represents 13.9% and 16.6% at June 30, 2008 and 2007, respectively.

(d) Interest Expense

Total interest expense increased by 10% or $5.2 million, from $52.5 million in 2007 to $57.7 million in 2008. This increase in interest expense was the result of increased transaction volumes.

(e) Noninterest Expenses

Noninterest expenses increased by approximately $30,000 or 0.2% during fiscal year 2008. This increase in noninterest expenses resulted from the net effect of the following:

- Professional fees increased by 28.8% or $174,000, from approximately $606,000 in 2007 to approximately $780,000 in 2008. The increase is mainly due to an increase in temporary services during 2008.

- Advertising expense increased by 68% or $192,000, from approximately $282,000 in 2007 to approximately $474,000 in 2008.
- All other noninterest expenses decreased by approximately $336,000 as compared to fiscal year 2007. This is mainly the result of the net effect of a decrease of approximately $601,000 in the provision for legal claims, an increase in salaries and employee benefits of approximately $240,000, an increase of $100,000 in electric energy expense, a decrease of approximately $171,000 in the provision for losses on foreclosed assets, and an increase of approximately $96,000 in other miscellaneous expenses.

Analysis of the Overall Financial Position and Results of Operations

On the financial position, the average balance of funds available from deposits and the related investments reflect a slight decrease when comparing 2009 to 2008, due mainly to the maturity, upon being called, of $322 million in promissory notes, $287 million of which matured during the last two month of fiscal year 2009. Time deposits balances from other governmental and financial institutions remained at similar levels during the last two years, providing adequate levels of funding to maintain the Bank's activities.

On the other hand, the decrease in interest rates during fiscal years 2009 and 2008 resulted in a decrease in interest income from loans, which reprice with the prime rate. Nevertheless, the increase in the loan portfolio has maintained the income producing capacity of the loan portfolio.

During the fiscal years 2008 and 2009, $2.1 million were recovered in previously charged off loans.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2009, approximately $292,000 in capital assets was acquired and approximately $430,000 was retired. During the same period, $322 million in promissory notes matured or amortized. As of year-end, the total promissory notes and other note payable balance was $304.2 million. Additional information about capital assets and long-term debt activity is presented in note 5 and 9 to the basic financial statements, respectively.

Contacting the Bank's Financial Management

This financial report is designed to provide a general overview of the Bank's finances for those interested. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Economic Development Bank for Puerto Rico, P.O. Box 2134, San Juan, PR 00922-2134.

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

Statement of Net Assets – Business-Type Activities

June 30, 2009

Assets		**EDB Operating Fund**	**EDB Capital Investment**	**Eliminations**	**Total**
Current assets:					
Cash and due from banks	$	2,507,274	—	—	2,507,274
Interest-bearing deposits with other banks and commercial paper		—	77,576	(77,576)	—
Securities purchased under agreements to resell		109,400,000	—	—	109,400,000
Investments		51,675,258	—	—	51,675,258
Loans, net of allowance for loan losses of $16,342,269		66,015,394	—	—	66,015,394
Accrued interest receivable		2,234,582	523,266	(2)	2,757,846
Due from other fund		106,607	—	(106,607)	—
		231,939,115	600,842	(184,185)	232,355,772
Noncurrent assets:					
Investments		259,569,382	307,314,921	—	566,884,303
Loans, net of allowance for loan losses of $31,314,476		147,037,131	—	—	147,037,131
Other assets		4,369,906	—	—	4,369,906
Capital assets:					
Building and improvements		13,687,838	—	—	13,687,838
Furniture and equipment		5,307,186	—	—	5,307,186
Less accumulated depreciation and amortization		(9,084,755)	—	—	(9,084,755)
Total capital assets		9,910,269	—	—	9,910,269
		420,886,688	307,314,921	—	728,201,609
Total assets	$	652,825,803	307,915,763	(184,185)	960,557,381
Liabilities and Net Assets					
Current liabilities:					
Time deposits	$	351,800,877	—	(77,576)	351,723,301
Securities sold under agreements to repurchase		79,685,000	—	—	79,685,000
Accrued interest payable		805,856	473,611	(2)	1,279,465
Promissory notes and other note payable		395,243	—	—	395,243
Due to other fund		—	106,607	(106,607)	—
Other current liabilities		2,726,397	5,456	—	2,731,853
		435,413,373	585,674	(184,185)	435,814,862
Noncurrent liabilities:					
Securities sold under agreements to repurchase		104,800,000	—	—	104,800,000
Promissory notes and other note payable		28,755,699	275,000,000	—	303,755,699
Other liabilities		3,111,828	14,717	—	3,126,545
		136,667,527	275,014,717	—	411,682,244
Total liabilities		572,080,900	275,600,391	(184,185)	847,497,106
Net assets:					
Invested in capital assets, net of related debt		(1,240,672)	—	—	(1,240,672)
Restricted for special loan programs		9,227,191	—	—	9,227,191
Unrestricted		72,758,384	32,315,372	—	105,073,756
Total net assets		80,744,903	32,315,372	—	113,060,275
Commitments and contingencies					
Total liabilities and net assets	$	652,825,803	307,915,763	(184,185)	960,557,381

See accompanying notes to basic financial statements.

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

Statement of Revenue, Expenses, and Changes in Net Assets – Business-Type Activities

Year ended June 30, 2009

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Operating revenue:				
Interest income:				
Deposits with other banks and commercial paper	$ 2,959,282	11,951	(11,951)	2,959,282
Securities purchased under agreements to resell	63,775	—	—	63,775
Investments	36,141,132	18,837,500	—	54,978,632
Loans	10,320,165	—	—	10,320,165
Total interest income	49,484,354	18,849,451	(11,951)	68,321,854
Noninterest income (loss):				
Net realized and unrealized gains (losses) on investments	(3,786,798)	320,593	—	(3,466,205)
Other income	1,109,779	—	(61,253)	1,048,526
Total noninterest income (loss)	(2,677,019)	320,593	(61,253)	(2,417,679)
Total operating revenue	46,807,335	19,170,044	(73,204)	65,904,175
Operating expenses:				
Provision for loan losses	23,675,000	—	—	23,675,000
Interest expense:				
Time deposits	8,303,096	—	(11,951)	8,291,145
Securities sold under agreements to repurchase	4,868,461	—	—	4,868,461
Promissory notes and other note payable	15,151,149	17,050,000	—	32,201,149
Total interest expense	28,322,706	17,050,000	(11,951)	45,360,755
Noninterest expenses:				
Salaries and employee benefits	9,137,084	110,210	—	9,247,294
Depreciation and amortization	515,605	—	—	515,605
Occupancy and related expenses	269,827	—	—	269,827
Professional fees	615,709	61,253	(61,253)	615,709
Advertising	171,059	—	—	171,059
Other	2,062,070	4,763	—	2,066,833
Total noninterest expenses	12,771,354	176,226	(61,253)	12,886,327
Total operating expenses	64,769,060	17,226,226	(73,204)	81,922,082
Operating income (loss) and change in net assets	(17,961,725)	1,943,818	—	(16,017,907)
Total net assets, beginning of year	98,706,628	30,371,554	—	129,078,182
Total net assets, end of year	$ 80,744,903	32,315,372	—	113,060,275

See accompanying notes to basic financial statements.

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

Statement of Cash Flows – Business-Type Activities

Year ended June 30, 2009

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Cash flows from operating activities:				
Cash payments for goods and services	$ (2,758,752)	(66,015)	—	(2,824,767)
Cash payments to employees	(9,395,796)	(95,411)	—	(9,491,207)
Cash received from interest and principal on loans	79,437,569	—	—	79,437,569
Other receipts (payments)	2,097,365	(2,779,552)	—	(682,187)
Cash payments for loaned amounts	(107,101,348)	—	—	(107,101,348)
Net cash used in operating activities	(37,720,962)	(2,940,978)	—	(40,661,940)
Cash flows from noncapital financing activities:				
Net increase (decrease) in:				
Time deposits	(26,543,351)	—	812,599	(25,730,752)
Securities sold under agreements to repurchase	20,057,000	—	—	20,057,000
Repayment of promissory notes	(322,000,000)	—	—	(322,000,000)
Interest paid on time deposits, securities sold under agreements to repurchase, and promissory notes	(34,861,764)	(17,050,000)	12,430	(51,899,334)
Net cash used in noncapital financing activities	(363,348,115)	(17,050,000)	825,029	(379,573,086)
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(292,261)	—	—	(292,261)
Principal payment on capital debt	(372,872)	—	—	(372,872)
Interest paid on capital debt	691,429	—	—	691,429
Net cash provided by capital and related financing activities	26,296	—	—	26,296
Cash flows from investing activities:				
Acquisition of investments	(401,090,918)	(5,392,647)	—	(406,483,565)
Principal repayments and maturities of investments	721,652,094	5,721,096	—	727,373,190
Net decrease (increase) in:				
Interest-bearing deposits with other banks	141,850,000	812,599	(812,599)	141,850,000
Securities purchased under agreements to resell	(109,400,000)	—	—	(109,400,000)
Interest collected on investments, notes receivable interest-bearing deposits with other banks, and commercial paper	45,557,295	18,849,930	(12,430)	64,394,795
Proceeds from sales of foreclosed assets	314,850	—	—	314,850
Net cash provided by investing activities	398,883,321	19,990,978	(825,029)	418,049,270
Net decrease in cash and due from banks	(2,159,460)	—	—	(2,159,460)
Cash and due from banks, beginning of year	4,666,734	—	—	4,666,734
Cash and due from banks, end of year	$ 2,507,274	—	—	2,507,274

(Continued)

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

Statement of Cash Flows – Business-Type Activities

Year ended June 30, 2009

		EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Reconciliation of operating income (loss) to net cash used in operating activities:					
Operating income (loss)	$	(17,961,725)	1,943,818	—	(16,017,907)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:					
Depreciation and amortization		515,605	—	—	515,605
Net realized and unrealized (gains) losses on investments		3,786,798	(320,593)	—	3,466,205
Provision for loan losses		23,675,000	—	—	23,675,000
Provision for losses on foreclosed assets		300,000	—	—	300,000
Loss on sale of foreclosed assets		6,750	—	—	6,750
Interest income from investments		(39,164,189)	(18,849,451)	11,951	(58,001,689)
Increase in accrued interest receivable from loans		387,825	—	—	387,825
Interest expense		28,322,706	17,050,000	(11,951)	45,360,755
Decrease (increase) in other assets		597,570	(2,779,552)	—	(2,181,982)
Increase in loans receivable		(38,371,769)	—	—	(38,371,769)
Increase in other liabilities		184,467	14,800	—	199,267
Net cash used in operating activities	$	(37,720,962)	(2,940,978)	—	(40,661,940)
Supplemental cash flow information and noncash transactions:					
Increase in fair value of investments	$	3,786,800	—	—	3,786,800
Transfer from loans to foreclosed real estate		651,812	—	—	651,812
Retirement of fully depreciated capital assets		429,573	—	—	429,573

See accompanying notes to basic financial statements.

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

Statement of Net Assets – Business-Type Activities

June 30, 2008

Assets	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Current assets:				
Cash and due from banks	$ 4,666,734	—	—	4,666,734
Interest-bearing deposits with other banks and commercial paper	56,850,000	890,175	(890,175)	56,850,000
Investments	184,319,371	—	—	184,319,371
Loans, net of allowance for loan losses of $12,877,118	71,283,242	—	—	71,283,242
Accrued interest receivable	9,015,512	523,745	(481)	9,538,776
Due from other fund	2,886,159	—	(2,886,159)	—
	329,021,018	1,413,920	(3,776,815)	326,658,123
Noncurrent assets:				
Investments	536,273,243	307,322,777	—	843,596,020
Loans, net of allowance for loan losses of $19,059,522	127,338,076	—	—	127,338,076
Other assets	4,760,785	—	—	4,760,785
Capital assets:				
Building and improvements	13,652,625	—	—	13,652,625
Furniture and equipment	5,479,711	—	—	5,479,711
Less accumulated depreciation and amortization	(8,998,723)	—	—	(8,998,723)
Total capital assets	10,133,613	—	—	10,133,613
	678,505,717	307,322,777	—	985,828,494
Total assets	$ 1,007,526,735	308,736,697	(3,776,815)	1,312,486,617
Liabilities and Net Assets				
Current liabilities:				
Time deposits	$ 378,344,228	—	(890,175)	377,454,053
Securities sold under agreements to repurchase	59,628,000	—	—	59,628,000
Accrued interest payable	6,653,485	473,611	(481)	7,126,615
Promissory notes and other note payable	372,871	—	—	372,871
Due to other fund	—	2,886,159	(2,886,159)	—
Other current liabilities	4,934,222	5,373	—	4,939,595
	449,932,806	3,365,143	(3,776,815)	449,521,134
Noncurrent liabilities:				
Securities sold under agreements to repurchase	104,800,000	—	—	104,800,000
Promissory notes and other note payable	351,150,942	275,000,000	—	626,150,942
Other liabilities	2,936,359	—	—	2,936,359
	458,887,301	275,000,000	—	733,887,301
Total liabilities	908,820,107	278,365,143	(3,776,815)	1,183,408,435
Net assets:				
Invested in capital assets, net of related debt	(1,390,200)	—	—	(1,390,200)
Restricted for special loan programs	9,266,428	—	—	9,266,428
Unrestricted	90,830,400	30,371,554	—	121,201,954
Total net assets	98,706,628	30,371,554	—	129,078,182
Commitments and contingencies				
Total liabilities and net assets	$ 1,007,526,735	308,736,697	(3,776,815)	1,312,486,617

See accompanying notes to basic financial statements.

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

Statement of Revenue, Expenses, and Changes in Net Assets – Business-Type Activities

Year ended June 30, 2008

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Operating revenue:				
Interest income:				
Deposits with other banks and commercial paper	$ 11,071,780	17,115	(17,115)	11,071,780
Securities purchased under agreements to resell	2,069,142	—	—	2,069,142
Investments	39,454,553	9,904,339	—	49,358,892
Loans	13,718,481	—	—	13,718,481
Total interest income	66,313,956	9,921,454	(17,115)	76,218,295
Noninterest income:				
Net realized and unrealized gains (losses) on investments	(1,353,090)	435,185	—	(917,905)
Other income	2,063,466	66,528	(49,500)	2,080,494
Total noninterest income	710,376	501,713	(49,500)	1,162,589
Total operating revenue	67,024,332	10,423,167	(66,615)	77,380,884
Operating expenses:				
Provision for loan losses	1,700,000	—	—	1,700,000
Interest expense:				
Time deposits	18,200,023	—	(17,115)	18,182,908
Securities sold under agreements to repurchase	7,637,517	—	—	7,637,517
Promissory notes and other note payable	22,918,597	8,964,511	—	31,883,108
Total interest expense	48,756,137	8,964,511	(17,115)	57,703,533
Noninterest expenses:				
Salaries and employee benefits	8,889,904	89,166	—	8,979,070
Depreciation and amortization	605,199	—	—	605,199
Occupancy and related expenses	253,616	—	—	253,616
Professional fees	763,167	67,260	(49,500)	780,927
Advertising	467,508	6,121	—	473,629
Other	1,739,554	4,608	—	1,744,162
Total noninterest expenses	12,718,948	167,155	(49,500)	12,836,603
Total operating expenses	63,175,085	9,131,666	(66,615)	72,240,136
Operating income and change in net assets	3,849,247	1,291,501	—	5,140,748
Total net assets, beginning of year	94,857,381	29,080,053	—	123,937,434
Total net assets, end of year	$ 98,706,628	30,371,554	—	129,078,182

See accompanying notes to basic financial statements.

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

Statement of Cash Flows – Business-Type Activities

Year ended June 30, 2008

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Cash flows from operating activities:				
Cash payments for goods and services	$ (3,828,571)	(77,989)	—	(3,906,560)
Cash payments to employees	(8,677,092)	(85,351)	—	(8,762,443)
Cash received from interest and principal on loans	85,433,371	—	—	85,433,371
Other receipts	2,729,775	1,295,755	—	4,025,530
Cash payments for loaned amounts	(104,126,593)	—	—	(104,126,593)
Net cash provided by (used in) operating activities	(28,469,110)	1,132,415	—	(27,336,695)
Cash flows from noncapital financing activities:				
Net increase (decrease) in:				
Time deposits	88,786,451	—	800,112	89,586,563
Securities sold under agreements to repurchase	14,550,000	—	—	14,550,000
(Repayment) issuance of promissory notes	(160,000,000)	275,000,000	—	115,000,000
Interest paid on time deposits, securities sold under agreements to repurchase, promissory notes, and other note payable	(49,813,297)	(8,490,900)	18,923	(58,285,274)
Net cash provided by (used in) noncapital financing activities	(106,476,846)	266,509,100	819,035	160,851,289
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(538,331)	—	—	(538,331)
Principal payment on capital debt	(351,765)	—	—	(351,765)
Interest paid on capital debt	(712,536)	—	—	(712,536)
Net cash used in capital and related financing activities	(1,602,632)	—	—	(1,602,632)
Cash flows from investing activities:				
Acquisition of investments	(318,112,205)	(280,702,173)	—	(598,814,378)
Principal repayments and maturities of investments	203,857,224	2,860,548	—	206,717,772
Sales of investments	160,818,292	—	—	160,818,292
Net decrease in:				
Interest-bearing deposits with other banks and commercial paper	16,193,404	800,112	(800,112)	16,193,404
Securities purchased under agreements to resell	20,000,000	—	—	20,000,000
Interest collected on investments, notes receivable, and interest-bearing deposits with other banks	54,895,903	9,399,998	(18,923)	64,276,978
Proceeds from sales of foreclosed assets	1,550,116	—	—	1,550,116
Net cash provided by (used in) investing activities	139,202,734	(267,641,515)	(819,035)	(129,257,816)
Net increase in cash and due from banks	2,654,146	—	—	2,654,146
Cash and due from banks, beginning of year	2,012,588	—	—	2,012,588
Cash and due from banks, end of year	$ 4,666,734	—	—	4,666,734

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

Statement of Cash Flows – Business-Type Activities

Year ended June 30, 2008

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income	$ 3,849,247	1,291,501	—	5,140,748
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	605,199	—	—	605,199
Net realized and unrealized (gains) losses on investments	1,353,090	(435,185)	—	917,905
Provision for loan losses	1,700,000	—	—	1,700,000
Provision for losses on foreclosed assets	297,930	—	—	297,930
Gain on sale of foreclosed assets	(331,682)	—	—	(331,682)
Interest income from investments	(52,595,475)	(9,921,454)	17,115	(62,499,814)
Increase in accrued interest receivable from loans	(361,974)	—	—	(361,974)
Interest expense	48,756,136	8,964,511	(17,115)	57,703,532
Decrease in other assets	1,160,963	1,229,227	—	2,390,190
Increase in loans receivable	(32,049,730)	—	—	(32,049,730)
Increase (decrease) in other liabilities	(852,814)	3,815	—	(848,999)
Net cash provided by (used in) operating activities	$ (28,469,110)	1,132,415	—	(27,336,695)
Supplemental cash flow information and noncash transactions:				
Decrease in fair value of investments	$ 1,377,090	—	—	1,377,090
Transfer from loans to foreclosed real estate	1,992,150	—	—	1,992,150
Retirement of fully depreciated capital assets	8,509	—	—	8,509

See accompanying notes to basic financial statements.

(1) Organization and Summary of Significant Accounting Policies

Economic Development Bank for Puerto Rico (the Bank) was created by the Puerto Rico Development Bank Act No. 22 of July 24, 1985, as amended, and constitutes a public corporation of the Commonwealth of Puerto Rico (the Commonwealth). The Bank is a component unit included in the Commonwealth's financial reporting entity and is a separate legal entity. The Bank promotes the development of the private sector of the economy of Puerto Rico. This is accomplished by making direct loans, loan guarantees, loan participations, and/or direct investments available to any person or business organization devoted to manufacturing, agriculture, trade, tourism, or other service enterprises, whose economic activity may have the effect of substituting imports, without this being understood as a limitation.

The Bank's operation consists principally in granting commercial loans and capital investments to small businesses, receiving deposits from other governmental or commercial financial institutions, issuing notes and other debts, and investing in securities and other financial instruments, similar to a private commercial bank. All revenue, such as interest, gains, dividends, and fees related to these activities, are presented as operating income. All expenses related to these revenue activities, such as interest expense, provision for losses, and administrative expenses, are considered operating expenses. For financial statements presentation, operating revenue is segregated between interest income and noninterest income, and operating expenses between interest expense, provision for losses, and other noninterest expenses.

The Bank is not required to pay any taxes on any assets acquired or to be acquired for its operations or activities, or on the revenue received from any of its operations or activities.

On October 19, 2006, the Bank's board of directors created a component unit named Economic Development Bank Capital Investment (EDBCI). EDBCI is a blended component unit of the Bank, which is presented as a business-type activity. The balances and transactions of EDBCI have been blended with the Bank in accordance with U.S. generally accepted accounting principles because, though legally separated, it was created and can be dissolved through resolutions of the Bank's board of directors. The board of directors of EDBCI is the same as that of the Bank. EDBCI operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico, investing in equity and other forms of capital of start-up, early, or later stage local enterprises or venture capital funds. During fiscal year 2007, the Bank transferred its capital investment portfolio, amounting to $27,445,966, as initial capital to EDBCI. An additional $30 million were approved for new capital investments as deemed necessary in EDBCI investment activity. The actual capital contribution during the year 2007 was $29 million. Also, EDBCI was authorized to invest in corporate paper as part of a new notes payable program like the one described on note 9.

The accounting policies followed by the Bank are in accordance with U.S. generally accepted accounting principles (GAAP), as applicable to governmental entities. The business-type activities of the Bank are accounted for as an enterprise fund. Accordingly, the Bank follows the accrual basis of accounting and the economic resources measurement focus. Revenue is recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid. The following is a description of the most significant accounting policies:

(a) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made by management include the allowance for loan losses, losses on foreclosed assets, losses on loan guarantees, and venture capital investments; the useful lives of fixed assets; the valuation of fixed assets and investments; and reserves for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

(b) Basis of Presentation

Under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Bank is required to apply all applicable GASB pronouncements as well as statements and interpretations issued by the Financial Accounting Standards Board (FASB), Accounting Principles Board Opinions (APB), and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989. In addition to applying FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, a proprietary activity may also apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements. The Bank has elected to also apply FASB Statements and Interpretations issued after November 30, 1989.

(c) Securities Purchased under Agreements to Resell

The Bank enters into purchases of securities under agreements to resell, as authorized by Act number 22 of July 24, 1985, Article 3. The amounts advanced under these agreements are reflected as an asset in the accompanying statements of net assets. The securities underlying these agreements, mainly interest-bearing deposits with other banks and government securities, are held under safekeeping by a financial institution independent of the transaction.

(Continued)

(d) Investments

The Bank follows GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This Statement establishes accounting and financial reporting standards for all investments held by governmental external investment pools. For most other governmental entities, it requires that most investments be reported at fair value in the statements of net assets.

The governing board authorizes the Bank to invest in the following:

- U.S. government and agencies obligations
- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Certificates and time deposits
- Commercial paper
- Bankers' acceptance
- Federal funds
- Securities purchased under agreements to resell
- Mortgage-and asset-backed securities
- Corporate notes
- External investment pools

The Bank's investment policies also establish limitations and other guidelines on amounts to be invested in the aforementioned investment categories. Such policies provide the requirements in the institutions with which investment transactions can be entered into. In addition, the Assets, Liabilities, and Investments Committee and the board of directors of the Bank may approve, as necessary, other transactions that the Bank may enter into.

Investments in debt securities are presented at fair value. Money market investments and participating interest earning investment contracts with a remaining maturity at time of purchase of one year or less are presented at amortized cost. Changes in the fair value of investments are presented in net realized and unrealized gains (losses) on investments in the statements of revenue, expenses, and changes in net assets. Fair value is determined based on quoted market prices.

Investments also include common and preferred stocks of various local enterprises that do not have readily determinable fair value and investment positions in external investment pools. The investments in common and preferred stocks are temporary and the Bank generally does not have the ability to exercise significant influence over the investees' operating and financial policies, and therefore, such investments are carried at the lower of cost or net realizable value based on management's evaluation of the financial condition of each investee. Because of uncertainties

(Continued)

inherent in the estimation process, management's evaluation of the financial condition of the investees and the related assessment of net realizable value may change in the near term.

Investment positions in external investment pools are reported at the net asset value of the shares held by the Bank. Such net asset value represents the fair value per share of the pools' underlying net assets. The financial statements of these pools include securities whose fair values have been estimated by the pools' managers in the absence of readily ascertainable market values. The Bank's external investment pools that are not registered with the Securities and Exchange Commission are supervised by the Commissioner of Financial Institutions, which is the governmental agency that regulates venture capital funds and the banking industry in Puerto Rico.

(e) Loans

Loans are presented at the unpaid principal balance reduced by the allowance for loan losses, and any deferred fees or costs on originated loans. Unsecured loans are generally charged off against the allowance for loans losses upon management's assessment that a loan is uncollectible. Although one of the factors evaluated by management in making this assessment is the number of days past due, at present time, the Bank's charge-off policy does not require charging off loans after a predetermined number of days.

For collateralized loans, charge-offs are recognized for the amount of collateral deficiency upon repossession. Recoveries of loans charged off are credited to the allowance for loan losses.

The accrual of interest on loans ceases when loans become past due 90 days or more and/or on those loans undergoing judicial or bankruptcy proceedings. Once a loan is placed on nonaccrual status, all accrued but uncollected interest is reversed from interest income. Interest on all nonaccrual loans is thereafter included in earnings only to the extent actually collected. Loans designated as nonaccruing are not returned to an accrual status until interest is received on a current basis and those factors indicative of doubtful collection cease to exist.

The allowance for loan losses is maintained at a level believed adequate by management to absorb potential losses in the loan portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of the portfolio, past loan loss experience, economic conditions, volume growth, and composition of the loan portfolio, and other relevant factors. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

(f) Classification of Loans and Allowance for Loan Losses

The current portion of loans includes the active principal of loans with maturities of one year or less and past due over three months and/or those loans undergoing judicial or bankruptcy proceedings. Also, these include the estimated current portion of loans with maturity over one year. The resulting difference was reported as the noncurrent portion.

The allowance for loan losses was allocated similarly between current and noncurrent portion based on the loan classification.

(g) Loan Guarantee Program

Guarantee fees on the loan guarantee program are recognized as income when the fees are collected. Such fees are estimated not to exceed related guarantee expenses. The accrual for losses on loan guarantees is based on management's evaluation of the potential loss on each guarantee, net of amounts recoverable from collateral and the share of loss of the participating banks, and is included in other liabilities. Because of uncertainties inherent in the estimation process, management's estimate of the provision for losses on loan guarantees and the related accrual for losses on loan guarantees may change in the near term.

(h) Loan Origination Costs and Commitment Fees

The Bank defers loan origination and commitment fees and direct origination costs. The net amount is amortized over the contractual life of the related loan as a yield adjustment.

(i) Real Estate Owned

Real estate owned acquired in satisfaction of loans is included in other assets and is held for sale. Properties acquired through foreclosure are transferred to real estate owned and recognized at the lower of fair value minus estimated costs to sell or loan's carrying value, establishing a new cost basis. Subsequent declines in the value of real estate owned are provided for when it is probable the cost will not be recovered and that a loss will be incurred. An allowance for losses on real estate owned is maintained for subsequent valuation adjustments on a specific property basis.

(j) Capital Assets

Capital assets are defined by the Bank as assets with an individual initial cost of over $500 and expected useful lives of over one year. Capital assets are stated at cost, less accumulated depreciation and amortization. Depreciation is computed on the straight-line basis over the estimated useful lives of the depreciable assets, which have been determined to be three years for computer software, five years for all furniture and equipment, and 40 years for building and improvements. Expenditures for major improvements that extend the useful life of the asset are capitalized. Maintenance and repairs are charged to expense.

(k) Securities Sold under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase, as authorized by Act number 22 of July 24, 1985, Article 3. These agreements are presented as a liability in the accompanying statements of net assets. The securities underlying these agreements are usually held by the broker or its agent, with whom the agreement is transacted.

(l) Accounting for Compensated Absences

Compensated absences, such as unpaid vacation and sick leave pay, are accrued when incurred using the pay or salary rates in effect at the statement of net assets date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences.

(m) Statements of Cash Flows

The accompanying statements of cash flows are presented in accordance with the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. For purposes of reporting cash flows, cash includes cash on hand, amounts due from banks, and items in process of collection.

(2) Cash and Due from Banks, Interest-Bearing Deposits with Other Banks and Commercial Paper, and Securities Purchased under Agreements to Resell

As of June 30, 2009 and 2008, the carrying amount and the corresponding depository bank balances of cash and due from banks and interest-bearing deposits with other banks were as follows:

	2009	
	Carrying amount	Depository bank balance
Cash and due from banks	$ 2,507,274	4,937,245

	2008	
	Carrying amount	Depository bank balance
Cash and due from banks	$ 4,666,734	8,387,913
Interest-bearing deposits with other banks	30,000,000	30,000,000
	$ 34,666,734	38,387,913

As of June 30, 2009 and 2008, the total depository bank balance consisted of $3,304,889 and $33,885,996, respectively, which was insured or collateralized with securities held by the Department of the Treasury of the Commonwealth and $1,632,356 and $4,501,917, respectively, deposited with the Government Development Bank for Puerto Rico (GDB), another component unit of the Commonwealth. Deposits with GDB are uninsured and uncollateralized.

The Bank's investment policies allow management to purchase commercial paper. The following table summarizes certain information about these purchases:

		2009	2008
Carrying amount at June 30	$	—	26,850,000
Average amount outstanding during the year		51,294,000	38,967,000
Maximum amount outstanding at any month-end		106,358,000	137,972,000
Weighted average interest rate for the year		2.67%	3.24%
Weighted average interest rate at year-end		—	3.08
Weighted average maturity (years)		—	0.003

The Bank's investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to purchase securities under agreements to resell. The following table summarizes certain information about these agreements:

		2009	2008
Carrying amount at June 30	$	109,400,000	—
Average amount outstanding during the year		13,967,000	38,206,000
Maximum amount outstanding at any month-end		109,400,000	65,070,000
Weighted average interest rate for the year		0.76%	5.41%
Weighted average interest rate at year-end		0.78	—
Weighted average maturity (years)		0.04	—

The Bank's investment policies establish the minimum amount of acceptable collateral. The market prices of the collateral are revised monthly and the margin amount adjusted accordingly. The aggregate market value of the securities underlying the agreements outstanding at June 30, 2009 was $118,966,000.

(3) Investments

As of June 30, 2009 and 2008, the Bank had the following investments:

		2009	
Investment type		**Fair value**	**Weighted average maturity (years)**
Federal Home Loan Bank	$	10,118,223	2.9
Federal National Mortgage Association		14,955,000	3.9
Federal Farm Credit Bank		3,201,557	0.2
Federal National Mortgage Association – Notes Payable Program		18,000,000	See below
Corporate paper		74,062,500	2.2
Corporate paper – Notes Payable Program		275,000,000	See below
Collateralized mortgage obligations		190,907,360	1.6
External investment pools		27,737,759	N/A
Equity investments		4,577,162	N/A
Total fair value	$	618,559,561	

		2008	
Investment type		**Fair value**	**Weighted average maturity (years)**
Federal Home Loan Bank	$	17,038,600	4.2
Federal National Mortgage Association		9,992,795	1.4
Federal Farm Credit Bank		20,004,000	4.4
Federal Home Loan Bank – Notes Payable Program		35,000,000	See below
Federal National Mortgage Association – Notes Payable Program		305,000,000	See below
Corporate paper		179,318,671	0.6
Corporate paper – Notes Payable Program		275,000,000	See below
Collateralized mortgage obligations		154,238,549	2.7
External investment pools		29,453,475	N/A
Equity investments		2,869,301	N/A
Total fair value	$	1,027,915,391	

Interest rate risk – In accordance with its investment policy, the Bank manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio generally to less than three years.

Those investments related to the notes payable programs involve matched transactions that generate a fixed spread of income to the Bank. These were directly approved by the Bank's board of directors and are not subject to the maximum maturity policy. As of June 30, 2009 and 2008, the investments related to the notes payable program have a weighted average maturity of 4.1 and 10.5 years, respectively.

In addition, investments in external investment pools and equity securities are not subject to the maximum maturity policy since they do not carry a maturity date. These instruments are not sold on secondary markets and are not priced in any stock exchange, and as such, its fair value depends on the performance of the involved enterprises. The inherent risk in these investments is managed through credit analysis, periodic reviews of results of operations, and meetings with subject companies and investment pools managers.

Credit risk – The Bank's investment policy limits long-term investment in corporate debt to the top three ratings issued by nationally recognized statistical rating organizations, and short-term investments in corporate debt to the top two ratings issued by nationally recognized statistical rating organizations.

As of June 30, 2009, the Bank's investments in corporate paper were rated BB- by Standard & Poor's and Ba1*- by Moody's Investor Service, the Bank's investments in collateralized mortgage obligations were rated AAA, AAA/A+, AAA*-, BBB+, B*- or CCC by Standard & Poor's and AAA, AAA/F1, AAA*-, CCC or CC by Fitch Ratings and the Bank's investment in Federal National Mortgage Association, Federal Home Loan Bank and Federal Farm Credit Bank were rated AAA by Standard & Poor's and Aaa by Moody's Investor Service.

As of June 30, 2008, the Bank's investments in corporate paper were rated BBB+/A2 or A/A-1 by Standard & Poor's and A3/P2 or A1/P-1 by Moody's Investor Service, the Bank's investments in collateralized mortgage obligations were rated AAA or AAA/A+ by Standard & Poor's and AAA, AAA(*-) or AAA/F1 by Fitch Ratings, the Bank's investment in Federal National Mortgage Association were rated AAA by Standard & Poor's and AAA by Fitch Ratings, the Bank's investment in Federal Home Loan Bank were rated AAA by Standard & Poor's and Aaa or Aaa/P1 by Moody's Investor Service and the Bank's investment in Federal Farm Credit Bank were rated AAA by Standard & Poor's and AAA by Fitch Ratings.

The Bank, through EDBCI, also invests in venture capital through external investment pools and through direct investment in equity securities. The Bank's investments in external investment pools and equity securities are not rated by a nationally recognized statistical rating organization. The related credit risk is measured through credit analysis, periodic reviews of results of operations, and meetings with subject companies' management. In addition, a reserve for possible losses in venture capital investments is recorded as a measure of providing a fair value in the financial statements. As of June 30, 2009 and 2008, the venture capital balances comprised the following:

		2009	**2008**
External investment pools	$	29,045,171	31,228,620
Equity investments		10,769,000	8,914,000
		39,814,171	40,142,620
Allowance for losses in venture capital investments		(7,499,250)	(7,819,844)
Fair value of venture capital investments	$	32,314,921	32,322,776

Custodial credit risk deposits – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the transaction, the Bank may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2009 and 2008, securities investments were registered in the name of the Bank and were held in the possession of the Bank's custodian institution.

The Bank was exposed to the following custodial credit risk for investments held at June 30, 2009:

Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	$	586,244,640
Uninsured and unregistered, with securities held by the Bank		32,314,921
Total	$	618,559,561

Concentration of credit risk – The Bank places no limit on the amount it may invest in any one issuer as a percentage of the investment portfolio. As of June 30, 2009, more than 5% of the Bank's investments are in Popular Inc. (the Issuer) corporate notes (56.4%), Federal Home Loan Mortgage Corporation REMIC CMO's (12.8%), Federal National Mortgage Association REMIC CMO's (6.6%), and Federal National Mortgage Association notes (5.3%). As of June 30, 2008, more than 5% of the Bank's investments are in Popular Inc. corporate notes (40.8%), Federal National Mortgage Association notes (30.6%), and Federal Home Loan Bank notes (5.1%).

Proceeds from sales, principal payments, and maturities of investments, including equity investments and gross realized gains or losses, for the years ended June 30, 2009 and 2008 are as follows:

		2009	2008
Proceeds from sales	$	—	160,818,292
Proceeds from principal payments and maturities		721,652,094	203,857,224
Gross gains		—	24,000

(4) Loans and Allowance for Loan Losses

The balance of current and noncurrent loans consists of loans originated by the Bank and amounts paid under the loan guarantee program. During the years ended June 30, 2009 and 2008, the Bank has made no payments under the loan guarantee program.

Loans distribution among industry sectors as of June 30, 2009 and 2008 is as follows:

		2009	2008
Agricultural	$	53,679,457	50,152,966
Commercial		56,052,712	54,332,501
Services		105,614,246	83,322,866
Manufacturing		26,145,850	29,045,432
Tourism		19,217,005	13,704,193
Total loans		260,709,270	230,557,958
Allowance for loan losses		(47,656,745)	(31,936,640)
	$	213,052,525	198,621,318

The Bank has defined impaired loans as all loans with interest and/or principal past due 90 days or more and other loans for which, based on current information, it is probable that the debtor will be unable to pay according to the contractual terms of the loan agreement. The Bank generally measures impairment based upon the present value of a loan’s expected future cash flows, except where foreclosure or liquidation is probable or when the primary source of repayment is provided by collateral. In these circumstances, impairment is measured based upon the fair value of the collateral less estimated selling and disposal costs. The present value of a loan’s expected future cash flows is calculated using the loan’s effective interest rate based on the original contractual terms.

Cash payments received on impaired loans are recorded in accordance with the contractual terms of the loan. The principal portion of the payments is used to reduce the principal balance of the loan; the interest portion is recognized as interest income. When management believes that collectibility of principal is doubtful, the interest portion may be applied to principal.

The following is a summary of information on loans considered to be impaired in accordance with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan*, as of June 30, 2009 and 2008 and the related interest income for the years then ended:

		2009	2008
Recorded investment in impaired loans not requiring an allowance for loan losses	$	26,142,000	19,235,000
Recorded investment in impaired loans requiring an allowance for loan losses		55,649,000	46,242,000
Total recorded investment in impaired loans	$	81,791,000	65,477,000
Related valuation allowance	$	21,878,000	16,116,000
Average recorded investment in impaired loans		63,966,000	50,399,000
Interest income recognized		2,126,000	3,109,000

At June 30, 2009 and 2008, loans on which the accrual of interest has been discontinued (cash basis loans), due to delinquency over 89 days and/or due to restructurings, amounted to $110,484,188 ($63,001,645 over 89 days and $47,482,543 restructured loans) and $77,072,013 (33,643,565 over 89 days and $43,428,448 restructured loans), respectively. The additional interest income that would have been recorded if these loans had performed in accordance with their original terms is estimated at approximately $6,830,250 and $4,301,300 as of June 30, 2009 and 2008, respectively.

Changes in the total allowance for loan losses for the years ended June 30, 2009 and 2008 were as follows:

		2009	2008
Balance, beginning of year	$	31,936,640	33,834,903
Provision charged to operations		23,675,000	1,700,000
Loans charged off as uncollectible		(8,616,160)	(5,040,546)
Recoveries		661,265	1,442,283
Balance, end of year	$	47,656,745	31,936,640

(5) Capital Assets

Capital assets activity for the years ended June 30, 2009 and 2008 was as follows:

	2009			
	Beginning balance	Increases	Decreases	Ending balance
Building and improvements	$ 13,652,625	35,213	—	13,687,838
Furniture and equipment	5,479,711	257,048	(429,573)	5,307,186
Total cost	19,132,336	292,261	(429,573)	18,995,024
Less accumulated depreciation and amortization:				
Building and improvements	(3,920,045)	(291,544)	—	(4,211,589)
Furniture and equipment	(5,078,678)	(224,061)	429,573	(4,873,166)
Total accumulated depreciation and amortization	(8,998,723)	(515,605)	429,573	(9,084,755)
Capital assets, net	$ 10,133,613	(223,344)	—	9,910,269

	2008			
	Beginning balance	Increases	Decreases	Ending balance
Building and improvements	$ 13,233,985	418,640	—	13,652,625
Furniture and equipment	5,368,529	119,691	(8,509)	5,479,711
Total cost	18,602,514	538,331	(8,509)	19,132,336
Less accumulated depreciation and amortization:				
Building and improvements	(3,544,433)	(375,612)	—	(3,920,045)
Furniture and equipment	(4,857,600)	(229,587)	8,509	(5,078,678)
Total accumulated depreciation and amortization	(8,402,033)	(605,199)	8,509	(8,998,723)
Capital assets, net	$ 10,200,481	(66,868)	—	10,133,613

The Bank's principal premises are partially rented to various lessees under lease terms expiring at various future dates. Minimum future rentals to be received for the next two years ended June 30, 2010 and 2011 are approximately $239,000 and $163,000, respectively.

Rent revenue amounting to approximately $499,000 and $471,000 was recorded as other income in the accompanying 2009 and 2008 statements of revenue, expenses, and changes in net assets, respectively.

(6) Other Assets

Other assets as of June 30, 2009 and 2008 consist of the following:

		2009	2008
Other real estate owned, net of allowance for losses of $3,747,401 in 2009 and $3,084,801 in 2008	$	3,922,971	4,279,010
Deferred issuance costs		153,120	183,088
Accounts receivable from other Commonwealth component units		64,986	64,986
Other		228,829	233,701
Total	$	4,369,906	4,760,785

(7) Time Deposits

Time deposits consist of deposits with fixed maturity dates (not exceeding 12 months) received from other governmental institutions, commercial banks, or other financial institutions. Governmental time deposits (Commonwealth and its component units) are exempt by law from the collateral requirement applicable to commercial financial institutions, which are depositors of public funds. Governmental time deposits at June 30, 2009 and 2008 amounted to approximately $245,751,000 and $329,320,000, respectively.

Time deposits in denominations of $100,000 or more amounted to approximately $351,663,000 and $377,325,000 at June 30, 2009 and 2008, respectively.

(8) Securities Sold under Agreements to Repurchase

The Bank’s investment policies, as authorized by Act number 22 of July 24, 1985, Article 3, allow management to sell securities under agreements to repurchase The following table summarizes certain information on securities sold under agreements to repurchase:

		2009	2008
Carrying amount at June 30	$	184,485,000	164,428,000
Average amount outstanding during the year		158,130,000	179,237,000
Maximum amount outstanding at any month-end		186,638,000	207,675,000
Weighted average interest rate for the year		2.75%	3.66%
Weighted average interest rate at year-end		2.33	3.28

Securities sold under agreements to repurchase represent borrowings with maturities ranging from six to 1,731 days at June 30, 2009.

As of June 30, 2009 and 2008, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other government agencies securities, and other investments with a market value of $201,400,000 and $172,207,000, respectively.

(9) Promissory Notes and Other Note Payable

Promissory notes and other note payable at June 30, 2009 and 2008 are summarized as follows:

		2009	2008
Promissory notes	$	293,000,000	615,000,000
Other note payable		11,150,942	11,523,813
Total	$	304,150,942	626,523,813

On May 22, 2003, the Bank was authorized to issue up to $300 million in collateralized promissory notes. During the fiscal year 2005, the authorized amount was increased up to $500 million. During fiscal year 2008, the Bank, through its subsidiary EDBCI, was authorized to issue an additional $275 million in collateralized promissory notes. The proceeds received by the Bank from the sale of these notes shall be invested in obligations that qualify as permitted investments under applicable laws and the investment guidelines adopted by the Bank. Such notes have maturities not exceeding 20 years. These notes contain certain call and put options written by the Bank and the creditor. The put options grant the Bank the exercisable right, at the Bank’s sole discretion, to require the noteholder to purchase, on established exercise dates, the collateral of this note at a price equal to 100% of the outstanding principal amount of the collateral securities. The call option permits the noteholders, on the same established dates of the Bank’s put option, to require the Bank to redeem the promissory notes at their outstanding principal amount. The call options on the notes are considered clearly and closely related to the notes, while the mirror put options held by the Bank are considered in accounting for the fair value of the underlying investments. As a result no separate asset or obligation is recorded related to the put and call options.

At June 30, 2009 and 2008, the aggregate principal balance of promissory notes outstanding under these programs amounted to $293 million and $615 million, respectively. These notes pay interest semiannually, bear interest rates at June 30, 2009 ranging from 4.51% to 6.2%, and mature at various dates through June 26, 2023. These promissory notes are collateralized with investment securities with an aggregate fair value of $259,060,000.

The other note payable is due to GDB (collateralized by a real estate mortgage), bears interest at the rate of 6% per annum, pays interest semiannually in June and December, and principal is paid each June. The note matures on June 1, 2026 and provides for annual payments of $1,064,300 including interest.

Promissory notes and other note payable activity for the years ended June 30, 2009 and 2008 was as follows:

	2009				
	Beginning balance	**Increases**	**Decreases**	**Ending balance**	**Amounts due within one year**
Promissory notes	$ 615,000,000	—	(322,000,000)	293,000,000	—
Other note payable	11,523,813	—	(372,872)	11,150,941	395,243
Total promissory notes and other notes payable	$ 626,523,813	—	(322,372,872)	304,150,941	395,243

	2008				
	Beginning balance	**Increases**	**Decreases**	**Ending balance**	**Amounts due within one year**
Promissory notes	$ 500,000,000	275,000,000	(160,000,000)	615,000,000	—
Other note payable	11,875,578	—	(351,765)	11,523,813	372,871
Total promissory notes and other notes payable	$ 511,875,578	275,000,000	(160,351,765)	626,523,813	372,871

The maturities of the promissory notes and the note payable for each of the next five fiscal years and thereafter are as follows:

	Principal	**Interest**
Year ending June 30:		
2010	$ 395,243	18,528,880
2011	418,958	18,505,047
2012	444,095	18,479,784
2013	275,470,741	9,501,755
2014	498,985	1,374,620
2015 – 2019	2,981,595	6,383,994
2020 – 2024	21,990,046	4,549,680
2025 – 2029	1,951,279	167,564
	$ 304,150,942	77,491,324

(10) Other Liabilities

The activity for the other noncurrent liabilities during 2009 and 2008 was as follows:

	2009			
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
Compensated absences	$ 2,486,137	404,100	(413,914)	2,476,323
Legal claims	450,222	250,000	(50,000)	650,222
	$ 2,936,359	654,100	(463,914)	3,126,545

	2008			
	Beginning balance	**Increases**	**Decreases**	**Ending balance**
Compensated absences	$ 2,310,235	451,434	(275,532)	2,486,137
Legal claims	787,722	—	(337,500)	450,222
	$ 3,097,957	451,434	(613,032)	2,936,359

(11) Net Assets

The Bank's net assets invested in capital assets and restricted as of June 30, 2009 and 2008 are composed of the following:

	2009	**2008**
Invested in capital assets, net of related debt:		
Capital assets	$ 18,995,024	19,132,336
Accumulated depreciation and amortization	(9,084,755)	(8,998,723)
Related GDB note	(11,150,941)	(11,523,813)
Total	$ (1,240,672)	(1,390,200)
Restricted for special loan programs:		
Economic Development Administration	$ 4,476,741	4,620,826
Day Care Centers Loan Fund	4,750,450	4,645,602
Total	$ 9,227,191	9,266,428

The Bank is a recipient of two grants from the Economic Development Administration Directive System (EDA), subscribed to the U.S. Department of Commerce to operate a program under a Revolving Loan Fund directed to assist businesses that suffered physical or economic damage due to the effects of Hurricane Hugo, and to advance the economic development of Puerto Rico. The Bank matched EDA's award pursuant to the terms of the grant agreements. The funds received from the collection of principal and interest of loans granted under the program are deposited in the fund to be used to disburse new qualified loans. At June 30, 2009 and 2008, the outstanding principal of loans granted under the terms of EDA Revolving Loan Fund amounted to $4,191,561 and $4,386,257, respectively, and are included in loans in the accompanying statements of net assets. The grants are routinely subject to financial and compliance audits in accordance with the provisions of the U.S. Office of Management and Budget Circular A-133 or to compliance audits by EDA. The latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

On October 6, 1989, a revolving loan fund grant that was administrated by GDB was transferred to the Bank for administration under the same terms as when the program was established by GDB. At the time, such fund had a total contribution of $1,250,000 ($1,000,000 from EDA and $250,000 from GDB) and a portfolio consisting of 15 loans with an aggregate outstanding principal balance of $504,299. The fund was pooled into the fund previously administered by the Bank when the Bank reimbursed $250,000 to GDB for their original contribution to such fund. As a result, the Bank's contribution to the fund equals 25% of EDA's contribution to the fund.

The Commonwealth approved Law No. 212 of August 29, 2000, as amended, which creates the Day Care Centers Loan Fund, for the purpose of financing the development of day care centers for children, multiple activity centers for elderly persons and long-term care institutions. The Bank is responsible for the administration of the fund. At June 30, 2009 and 2008, the outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund amounted to $3,633,548 and $3,389,030, respectively, and are included in loans in the accompanying statements of net assets.

Restricted net assets related to the special loans programs as of June 30, 2009 and 2008 consist of the following:

		2009	2008
Cash and due from banks	$	2,832,931	2,374,094
Loans and interest receivable, net of allowance for loan losses of $1,669,427 and $1,362,253 in 2009 and 2008, respectively		6,188,359	6,452,701
Other assets		293,317	514,965
Total restricted assets		9,314,607	9,341,760
Accounts payable and other liabilities		87,416	75,332
Total restricted net assets	$	9,227,191	9,266,428

(12) Interagency Agreements

The Bank has entered into interagency agreements with various government agencies. Such agreements provide for the deposit of funds in the Bank amounting in the aggregate to approximately $1.9 million to be used for loan programs to benefit socially and economically disadvantaged families and unemployed persons. Loans are granted based on the requirements established by such governmental agencies and the Bank is responsible for the administration of the loan portfolio. At June 30, 2009, these fund programs had made payments of approximately $216,000 to the Bank for loans guaranteed; therefore, these loans are not included in the accompanying statements of net assets.

The Bank entered into an interagency agreement with the Economic Development and Commerce Department (a governmental unit of the Commonwealth). Such agreement provides for the transfer of the funds from the previously created Hurricane Georges Guarantee Loan Fund and the Education Loan Program Guarantee Fund to a new loan fund program. The new loan fund program grants direct loans and guarantees to small and medium sized entrepreneurs in the economic sectors of manufacturing, services, and commerce. Guarantee claims under Hurricane Georges Guarantee Loan Fund and Education Loan Program Guarantee Fund may be paid by the new fund. At June 30, 2009 and 2008, the outstanding principal of loans granted under all the Economic Development and Commerce Department loans and loan guarantee programs amounted to $13,409,400 and $14,498,688, respectively, of which $9,645,931 and $11,524,545, respectively, are included in loans in the accompanying statements of net asset, while the remaining balance had been paid to the Bank by the new fund.

The Bank entered into an interagency agreement with the Tourism Company of Puerto Rico (a component unit of the Commonwealth) to create the Loan and Guarantee Tourism Fund. At June 30, 2009 and 2008, the outstanding principal of loans granted under this fund amounted to $15,680,000 and $9,368,000, respectively, and are included in loans in the accompanying statements of net assets.

On August 17, 2001, the Commonwealth approved Law No. 117, which creates the Agricultural Guarantee Loan Fund to secure loans granted by the Bank and commercial banks to farmers and agricultural entities. This fund will be financed through annual appropriations to be provided by the Commonwealth up to $100 million during a four-year period. The Bank has entered into an alliance with the Commonwealth's Department of Agriculture (the Department) for the administration of this fund, which among other things, requires that the Department establish the operational procedures of the Fund, while the Bank will administer the fund. At June 30, 2008, the fund had received $10 million related to the initial appropriation, which was deposited in the Bank. At June 30, 2009 and 2008, the outstanding principal of all loans granted under the Agricultural Guarantee Loan Fund program amounted to $16,957,171 and $17,848,074, respectively, of which $10,946,837 and $12,159,571, respectively are included in loans in the accompanying statements of net asset, while the remaining balance had been paid to the Bank by the fund.

The Bank entered into an interagency agreement with the Department of Agriculture (a governmental unit of the Commonwealth) and the Fund for the Comprehensive Development of the Agriculture, a component unit of the Puerto Rico Land Authority (a component unit of the Commonwealth), to create the Guarantee Loan Program – "La Llave para tu Agro-empresa". At June 30, 2009 and 2008, the outstanding principal of loans granted under the program amounted to $2,782,108 and $1,974,512.

The Bank entered into an interagency agreement with the Corporation for the Development of the Arts, Sciences, and the Cinematographic Industry of Puerto Rico (a component unit of the Commonwealth) to create the Loan and Capital Investments Guarantee Fund for the Cinematographic Industry and the Loan Guarantee Fund for the Television. At June 30, 2008 the outstanding principal of loans granted under this fund amounted to $300,000 (none in 2009), and are included in loans in the accompanying statements of net assets.

The financial statements of these funds were audited by other independent auditors whose reports thereon, dated August 31, 2009, express an unqualified opinion. These funds are not included within the Bank's financial statements.

The Bank and the governmental agencies participating in the interagency agreements described above are jointly liable for any litigation that may arise in connection with the administration of such loan programs. At June 30, 2009 and 2008, there was no pending or threatened litigation under such programs.

(13) Commitments and Contingencies

(a) Litigation

At June 30, 2009, the Bank is a defendant in various lawsuits arising from the ordinary course of business. Management, after consultation with legal counsel, is of the opinion that the ultimate liability, if any, resulting from such lawsuits would not be material in relation to the Bank's financial position and results of operations.

Because of the uncertainties inherent in the evaluation of pending or threatened litigation, the Bank's ultimate liability under such claims may be significantly different from management's current estimate.

(b) Loan Guarantee Program

On March 9, 2009, the Commonwealth approved Law No. 9, which creates the Loan Guarantees Program for the Small and Medium Businesses. Under the program, the Government Development Bank of Puerto Rico, a component unit of the Commonwealth, assigned $180 million to the Bank to secure loans granted by commercial banks and other financial institutions ranging from $5,000 to $250,000 and in accordance with the criteria established by the law and the Bank's policies. The purpose of this program is to facilitate credit to enterprises affected by lack of liquidity or lack of sufficient collateral to back up their loans. At June 30, 2009, the outstanding principal of loans granted under the program amounted to $65,000.

At June 30, 2009 and 2008, total outstanding loan guarantees, including guarantees under the new program mentioned above, amounted to approximately $429,000 and $378,000, respectively. The Bank has recorded an accrual for losses on loan guarantees amounting to approximately $170,000 at June 30, 2009 and 2008, which is included in other current liabilities in the accompanying statements of net assets.

(c) Other Risks

The Bank is exposed to various risks of loss related to torts, theft, casualty, errors, and omissions and other losses for which the Bank carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. Also, the Bank obtains workers' compensation coverage from another component unit of the Commonwealth.

(14) Fair Values of Financial Instruments

The following summarizes the methods and assumptions used by the Bank in estimating the fair values of financial instruments:

- *Cash and Due from Banks* – The amount reported in the statements of net assets for cash and due from banks approximates its fair value.
- *Interest-Bearing Deposits with Other Banks and Commercial Paper* – Maturity dates of interest-bearing deposits with other banks and commercial paper at June 30, 2008 (none in 2009) are less than one year. The amount reported in the statements of net assets for interest-bearing deposits and commercial paper approximates its fair value due to the short-term maturities and the nature of the instruments.
- *Securities Purchased Under Agreements to Resell* – Maturity dates of securities purchased under agreements to resell at June 30, 2009 and 2008 are less than one year. The amount reported in the statements of net assets approximates its fair value due to the short-term maturities and the nature of the instruments.
- *Investment in Debt Securities* – Debt securities are carried at fair value. Debt securities that are primarily traded in secondary markets were valued using market prices, pricing models, or quoted market prices of financial instruments with similar characteristics.
- *External Investment Pools and Equity Investments* – The fair value of investment positions in external investment pools was estimated by the pools' managers in the absence of readily ascertainable market values. The carrying value of investments in equity securities of local enterprises approximates fair value as estimated by management based on an evaluation of the investees' financial position.
- *Loans* – Given the type of development loans originated by the Bank, and the level of nonaccrual and impaired loans, it is not practicable to estimate fair value of the portfolio.
- *Accrued Interest Receivable* – The amounts reported in the statements of net assets approximate fair value because of the short term nature of this balance.
- *Time Deposits* – Maturity dates of time deposits range from one to 184 days. The carrying amounts approximate their fair values at the reporting date due to the short term maturities.
- *Securities Sold under Agreements to Repurchase* – Maturity dates of securities sold under agreements to repurchase at June 30, 2009 and 2008 are less than one year except for seven securities amounting to $104.8 million, which mature between September 4, 2010 and March 27, 2014. The fair value at the reporting date equals its carrying amounts.
- *Promissory Notes and Other Note Payable* – The fair value of promissory notes with variable interest rates and of the other note payable with a fixed rate approximates their carrying value. Pertinent information concerning these transactions is provided in note 9.
- *Accrued Interest Payable* – The amounts reported in the statements of net assets approximate fair value because of the short term nature of this balance.

The carrying value and fair value of financial instruments are as follows:

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
	(In thousands)			
Financial assets:				
Cash and due from banks	$ 2,507	2,507	4,667	4,667
Interest-bearing deposits with other banks and commercial paper	—	—	56,850	56,850
Securities purchased under agreements to resell	109,400	109,400	—	—
Investments	618,560	618,560	1,027,915	1,027,915
Loans	213,053	213,053	198,621	198,621
Accrued interest receivable	2,758	2,758	9,539	9,539
Financial liabilities:				
Time deposits	351,723	351,723	377,454	377,454
Securities sold under agreements to repurchase	184,485	184,485	164,428	172,207
Promissory notes and other note payable	304,151	304,151	626,524	626,524
Accrued interest payable	1,279	1,279	7,127	7,127

(15) Significant Group Concentrations of Credit and Market Risk

The Bank's business activities are with customers located in Puerto Rico. The Bank's loan transactions are all directed toward small and medium size businesses in all sectors of Puerto Rico's economy. The collateral held on the Bank's loans varies, but usually includes chattel and real estate mortgages.

(16) Retirement Plans

(a) Defined Benefit Pension Plan

The Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities (ERS) created pursuant to Act No. 447 of 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 System as a condition to their employment. No benefits are payable if the participant receives a refund of their accumulated contributions.

The System provides retirement, death, and disability benefits pursuant to legislation enacted by the Commonwealth's legislature. 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. Retirement benefits depend upon age at retirement and number of years of creditable service. Benefits vest after 10 years of plan participation.

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

(b) Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305, which amends Act No. 447, to establish, among other things, a new defined benefit contribution savings plan program (System 2000).

System 2000 became effective on January 1, 2000. Employees participating in the System as of December 31, 1999 elected either to stay in the defined benefit plan or to transfer to System 2000. New regular employees of the government on or after January 1, 2000 became members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there is a pool of pension assets, which is invested by the System, together with those of the System. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on the employees' contribution (with a minimum of 8.275% of the employees' salary up to a maximum of 10% of the monthly gross salary), which will be invested in one of three investment options. The Bank's required contribution is 9.275% of the employees' salary.

System 2000 reduces the retirement age from 65 years to 60 years for those employees who joined the current plan on or after April 1, 1990.

Total employee contributions during the years ended June 30, 2009, 2008, and 2007 to the above plans amounted to approximately $512,000, $469,000, and $459,000, respectively. Total payroll covered for the years ended June 30, 2009 and 2008 was approximately $6,253,000 and $5,768,000, respectively.

The Bank's contributions during the years ended June 30, 2009, 2008, and 2007 to the above plans amounted to $580,000, $532,000, and $522,000, respectively, which represented 100% of required contributions.

Additional information on the System will be provided in its financial statements for the year ended June 30, 2009. That report may be obtained by writing to Employees' Retirement System of the Commonwealth and its Instrumentalities, P.O. Box 42003, San Juan, PR 00940 2003.

(17) Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Bank is a party to financial instruments with off-balance-sheet risk to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and to purchase investment and mortgage-backed securities, financial guarantees, and interest rate exchange agreements. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized in the accompanying statements of net assets. 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 losses for lending commitments are represented by the contractual amount of such transactions. The notional amounts for other off-balance-sheet risks express the dollar volume of the transactions, but the credit risk might be lower.

At June 30, 2009 and 2008, the off-balance-sheet risks consisted of the following:

	2009	2008
	(In thousands)	
Financial instruments whose credit is represented by contractual amounts:		
Financial guarantees	$ 429	378
Commitments to extend credit	31,084	22,090
Commitments to invest in venture capital	18,311	19,679

Financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing financial guarantees is essentially the same as that involved in extending loan facilities to customers.

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 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.

(18) Other Noninterest Income

Other noninterest income for the years ended June 30, 2009 and 2008 consists of the following:

		2009	2008
Rental income (note 5)	$	499,144	470,770
Gain (loss) on sale of foreclosed assets		(6,750)	331,682
Administrative fees – other funds		116,746	81,796
Recoveries from loan guarantees		37,505	549,140
Miscellaneous income		401,881	647,106
Total	$	1,048,526	2,080,494

(19) Other Noninterest Expenses

Other noninterest expenses for the years ended June 30, 2009 and 2008 consist of the following:

		2009	2008
Electricity	$	502,420	513,647
Insurance		210,881	240,853
Repairs and maintenance		169,017	150,575
Telephone		113,503	123,103
Employees trainings and seminars		15,019	36,261
Office supplies		62,667	73,878
Reimbursement of expenses to employees		87,851	118,020
Dues and subscriptions		68,361	60,465
Investment operations		33,474	31,225
Vehicles		13,815	19,358
Postage		28,659	28,789
Official meetings		13,346	18,206
Miscellaneous		197,820	331,852
Subtotal		1,516,833	1,746,232
Legal claims		250,000	(300,000)
Provision for losses on foreclosed assets		300,000	297,930
Total	$	2,066,833	1,744,162

(Continued)

(20) Subsequent Events

On September 30, 2009, the Bank entered into an agreement with the issuer of $75 million floating rate notes (the Notes) due on September 12, 2011 and owned by the Bank as of June 30, 2009, to eliminate the Bank's right to resell the Notes to the issuer on certain dates prior to the stated maturity. In exchange for relinquishing this right, the issuer agreed to pay additional interest of 1.5% per annum on the Notes, raising the interest from LIBOR plus 6% to LIBOR plus 7.50% (subject to adjustment based on the credit ratings of the issuer). As a result, on September 30, 2009 the Bank recorded an unrealized loss of approximately $2.8 million on this investment existing at June 30, 2009.

The Company evaluated subsequent events through October 14, 2009, the date the financial statements were available to be issued.