PUBLIC CORPORATION FOR THE SUPERVISION AND INSURANCE OF COOPERATIVES IN PUERTO RICO

INDEPENDENT AUDITORS' REPORT
AND
AUDITED FINANCIAL STATEMENTS

June 30, 2009 and 2008

PUBLIC CORPORATION FOR THE SUPERVISION AND INSURANCE OF COOPERATIVES IN PUERTO RICO
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JUNE 30, 2009 AND 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Insured Cooperatives of
Public Corporation for the Supervision and Insurance of
Cooperatives in Puerto Rico:

We have audited the accompanying statement of net assets of The Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico (the "Corporation") as of June 30, 2009, and the related statement of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation as of June 30, 2008, were audited by other auditors whose report dated September 29, 2008, expressed an unqualified opinion of those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 Corporation'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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above, present fairly, in all material respects, the financial position of the Corporation at June 30, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Scherrer Hernández & Co.

San Juan, Puerto Rico

August 21, 2009

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2009
Stamp 2445443 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

MANAGEMENT'S DISCUSSION AND ANALYSIS

Corporate Activities and Operational Amendments

The Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico ("COSSEC" or the "Corporation") has the responsibility to provide insurance coverage over shares and deposits of all Cooperative Credit and Savings Unions in Puerto Rico. COSSEC also monitors and supervises the financial condition of insured and non-insured cooperatives. On June 18, 2009, the Corporation increased the maximum amount insured per member or depositor of any type of deposit account from $100,000 to $250,000. This increase was effective after an actuary detailed analysis.

The Corporation generates revenues by premiums charged from insurance coverage over shares and deposits of all insured cooperatives in Puerto Rico, interest income earned from investment securities and fees charged to cooperatives related to the supervision of insured Cooperative Credit and Savings Unions.

As of June 30, 2009, 122 Cooperative Credit and Savings Unions are operating under the Corporation's insurance coverage and supervision program. During the fiscal year 2008-2009, three of those cooperatives merged, reducing the number of active cooperatives to 122 at the end of the fiscal year. The total amount of insured shares and deposits increased from $6,242 million to $6,579 million for the period.

The following table illustrates the Cooperative Credit and Savings Unions with their respective shares and deposits risk ratings in accordance with the Corporation's rating classification ("CAEL"). The information of the following table was used by the Corporation to bill premiums for the fiscal year 2008-2009. On the scale of 1 to 5, the cooperatives in the first category are considered as the lowest risk of insolvency and the cooperatives in the last category is considered insolvent.

	2009		2008	
Rating	Number of Credit Unions	Shares and Deposits Amount	Number of Credit Unions	Shares and Deposits Amount
1	10	$ 765.1	9	$ 677.3
2	50	2,426.3	57	2,333.7
3	52	2,982.4	48	2,991.3
4	9	347.6	11	239.8
5	1	0.5	-	-
	122	$ 6,521.9	125	$ 6,242

Besides, Act Number 247 of August 10, 2009, which was effective on February 1, 2009, transferred to COSSEC all activities from the Office of the Cooperatives Inspector of Puerto Rico ("OCIPR") and from the Cooperative Development Administration ("CDA"), specifically the activities related to cooperatives liquidation under the enforcement of the Act Number 239 of September 1, 2004. In the execution of this Act Number 247, COSSEC has begun a process of reorganization aimed to attend the challenges that are assumed under the new activities of the Act, not significantly affecting the operations. As part of the execution, 24 employees were transferred to COSSEC, and were placed in the new operational area as stated in the organizational chart.

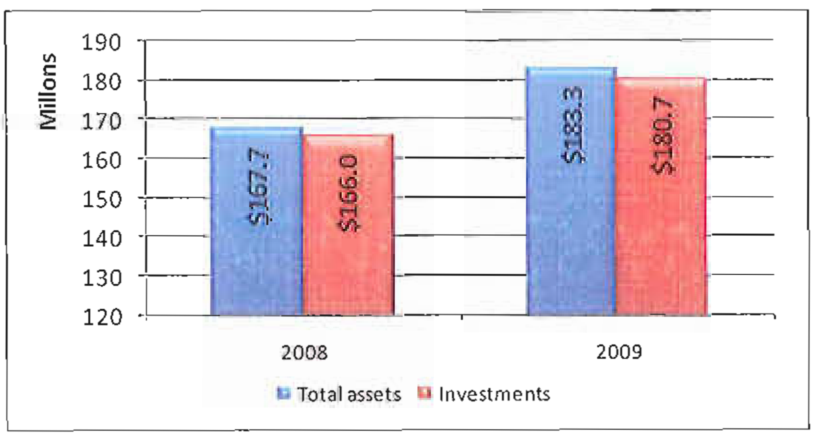
The new organizational scheme seeks to improve the internal process of the Corporation and become more effective and efficient in supervising and monitoring the cooperatives of Puerto Rico. One of the most significant operational amendments was the creation of the Department of Technical Support and Supervision. The following areas were merged: Exam, Liquidations, Statistics, and Continued Education. With this approach, everything related to the supervision of the cooperatives was included in this department. A new element was incorporated for prevention and technical support. Another important organizational change was the unification of the Complaint and Consults Area in the Legal Department. The merger will allow COSSEC to attend with effectiveness any complaint, consult or accusation.

For this fiscal year, the financial statements do not disclose the complete effect of the conversion; all employees from the OCI continued to receive their pay checks from the Treasury Department until June 30, 2009. It was only recognized the accumulation of compensating balances from vacation, sick days and lease expense of the OCI, which were necessary to pay in order to cancel the lease agreement. The total impact of the Act Number 247 will be reported in the financial statements for the fiscal year 2009-2010.

The Corporation Board of Directors and Management present the analysis of their financial statements for the fiscal year ended June 30, 2009. This managerial summary should be read in conjunction with the financial statements of COSSEC, which are included as part of this document.

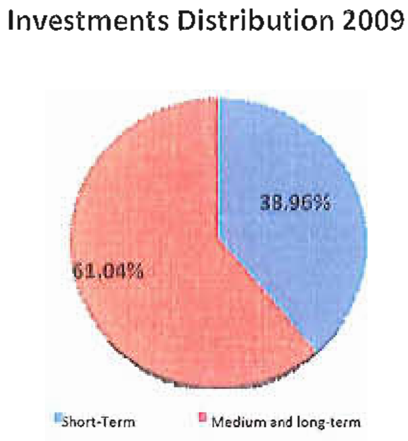
Assets

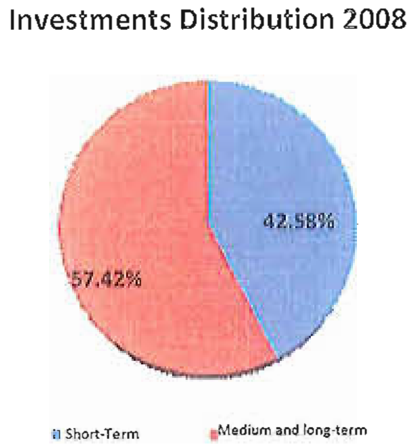
At the end of the fiscal year 2009, total assets ascend to $183.3 million. This amount represents an increase of $15.6 million in comparison with total assets at the end of the prior fiscal year, which was $167.7 million. The reported increase in total assets represents a change of 9.3%.



The main reason for this performance in the Corporation's total assets was the increase of $14.7 million in investment securities. By the end of the fiscal year 2009, the portfolio balance in investments was $180.7 million, while as for the fiscal year 2008 the amount was $166 million. The investments additions were mainly financed by premiums revenue reported during the fiscal year 2009, which ascended to $15.2 million.

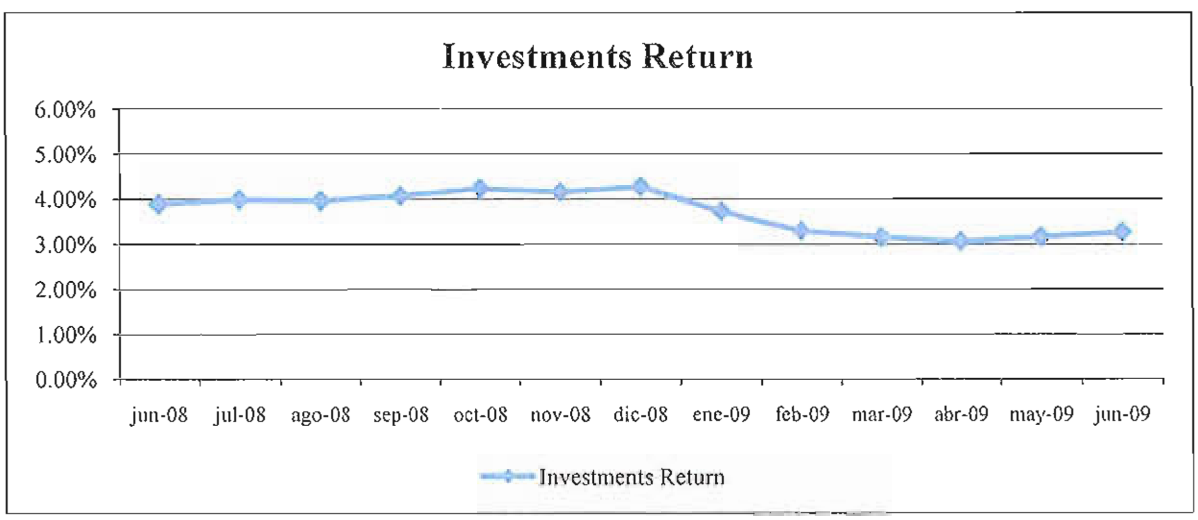
During the fiscal year, the investments distribution of short, medium and long-term suffered a slightly change.





For the fiscal year 2008, the percentage of long-term investments represented 57.4% of the total portfolio, while as for the fiscal year 2009, the distribution increased to 61%. This change of approximately 3.6% is management's response for higher yields during the reduction of interest rates in capital markets.

During the fiscal year 2009, the average performance of the investment securities was variable. (See graph below). However, if we compare the performance between June 2008 (3.89%) and June 2009 (3.26%), we obtained a decrease of .63%.



Liabilities

For the fiscal year 2009, total liabilities of the Corporation ascended to $42 million. This balance exceeds by $25.4 million the amount reported in prior fiscal year.

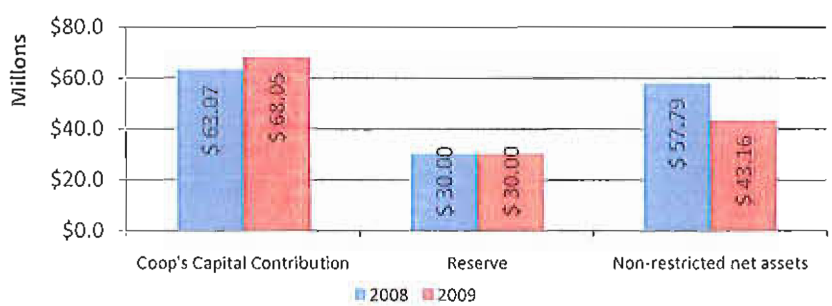
Reserve for probable loss	$ 39,270,136	$ 14,166,340
Other liabilities	2,612,498	2,430,920
Total liabilities	$ 41,882,634	$ 16,597,260

The increase in total liabilities corresponds to the increase in the reserve for probable losses. For the fiscal year 2009, it was necessary to realize an extraordinary adjustment increasing the reserve to $39.3 million, resulting in a charge against operations of $27 million. The main reason for this significant adjustment to the reserve was the possibility of a loss of one cooperative in Puerto Rico. This cooperative is under receivership since July 16, 2009, representing a possible loss of $23 million to the Corporation, causing impairment and raising doubts about their going concern.

During the fiscal year claims ascended to $2 million and recoveries amounted to $54 thousand.

Net Assets

The operational loss caused by the adjustment realized in the reserve for probable losses had a negative effect on COSSEC's net assets. In June 2008, the balance was $151.1 million, which decreased to $141.4 million dollars in June 2009. The decrease in net assets was caused mainly to the loss of $12.2 million reported at the end of fiscal year 2009, negatively affecting non-restricted net assets. Non-restricted capital decreased from $87.8 million dollars in 2008 to $73.2 million in 2009.



The capital contributions realized by the cooperatives amounted to $4.8 million. The dividends approved by the Board of Directors were recognized against capital contributions. Total dividends ascended to $2.5 million, resulting in net capital contributions of $2.3 million.

Despite the negative effect of the operational results, the Corporation maintains a strong level of net assets. As of June 2009, the relation between total net assets and total shares and deposits was 1.71%. This represents a decrease of .23% in comparison with the 1.94% obtained in June 2008.

Account	2009	2008
Total shares and deposits	$ 6,522	$ 6,242
Total non-restricted capital	111	121
Relation	1.71%	1.94%

Presented in millions $

The comparison of COSSEC net assets with the National Credit Union Share Insurance Fund ("NCUSIF") as of June 30, 2009, presents a relation of 1.30%. As a result, the insurance fund of our Corporation has superior capitalization than the federal credit unions.

Operational Income

The main source of income for COSSEC is derived from premiums billed to insured cooperatives. For the fiscal year 2009, premiums revenue ascended to $15.2 million. This amount represents an increase of $1 million in comparison with the amount reported in the last fiscal year of $14.2 million. This increase in premiums revenue for COSSEC is due to the raise of $287 million or 4.6% of shares and deposit balances of the cooperatives during the fiscal year 2009.

Non-Operational Income

This income is due to the performance generated from the investment securities realized by COSSEC. For the Fiscal year 2008, total interest earned from investments were $8.1 million, as for this fiscal year 2009, $6.7 million were reported, resulting in a decrease of $1.4 million dollars. The reduction in interest is due to the decrease of 1.24% in investment performance of COSSEC's portfolio. This is a result of the total investment performance in the financial market. This reduction occurs even though the increase of $14.7 million in the investment balance.

	2009	2008	Change
Final investment balance	$ 180.7	$ 166	$ 14.7
Average investment balance	179.7	162.9	16.8
Interest income	6.7	8.1	(1.4)
Average annual performance	3.73%	4.97%	(1.24) %

Operational Expenses

The expenses incurred in the operation, excluding the provision for probable losses, ascended to $8.2 million for the fiscal year 2009. Operational expenses for this fiscal year are $1.3 million more than the amount reported in the last fiscal year. The increase of $1.1 million is due to the benefits and compensations for employees. The increase is due to the execution of the new Classification and Compensation Plan approved by the Board of Directors, effective on June 1, 2009.

The other component of operational expenses is the provision for probable losses. For the fiscal year 2009, the expenses ascended to $27 million, implying an increase of $23.6 million in comparison with the

3.4 million reported last year in the provision for probable losses. The main cause of the change was discussed in the liabilities section of this analysis.

During the fiscal year 2009, management took into consideration various actions to reduce the operational expenses. The events were as follows:

- Reduction of 30% of the Trust Positions in COSSEC
- Elimination of 100% of the Trust Positions in the Office of the Cooperatives Inspector.
- Reduction of 30% in Office Improvement Expenses
- Reduction of 10% in Professional Services and Consulting Services
- Reduction of 50% in Telephone Expense
- Reduction of 10% in Marketing
- Reduction of 50% in Maintenance and Cleaning Expenses
- Reduction of 50% of Travel Expenses

These actions permitted to end the fiscal year with a surplus of $500 thousand in the actual operational expenses versus budget. For this fiscal year, the Board of Directors approved a budget ascending to $8.8 million and for the end of the operational year, total expenses were $8.3 million. Savings could have been more however, it was necessary to recognize the vacation and sick days accumulated by the employees transferred from OCIPR, as an expense as part of the enforcement of the Act Number 247. This accumulation represented an expense not considered in the budget of $280 thousand.

Summary of the Financial Statements

The Management Discussion and Analysis has the purpose to serve as an introduction to the financial statements of the Corporation. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in the Net Assets, Statement of Cash Flows and Notes to the Financial Statements provide information of the Corporation's activities.

The Statement of Net Assets presents the information of the assets and liabilities of the Corporation. The difference between them represents net assets. The Statement of Revenues, Expenses and Changes in the Net Assets provide information of how the net assets changed during the fiscal year 2009. The notes to the financial statements provides additional information not disclosed.

PUBLIC CORPORATION FOR THE SUPERVISION AND INSURANCE OF COOPERATIVES IN PUERTO RICO
STATEMENTS OF NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash	$ 454,252	$ 434,274
Short-term investment securities, at cost	70,629,175	70,524,004
Accounts receivable:		
Interest	1,222,572	1,394,650
Other	140,784	5,139
Total current assets	72,446,783	72,358,067
LONG-TERM INVESTMENTS, AT MARKET VALUE (cost $110 in 2009, and $95.5 in 2008)	110,644,397	95,095,445
CAPITAL ASSETS, NET	224,488	267,766
	$ 183,315,668	$ 167,721,278
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 1,095,345	$ 1,163,062
Accrued vacations and compensated absences	1,517,153	1,267,858
Reserve for probable losses	39,270,136	14,166,340
Total liabilities	41,882,634	16,597,260
NET ASSETS:		
Restricted:		
Capital contributed by insured credit unions	$ 68,047,425	$ 63,070,628
Invested in capital assets	224,488	267,766
Unrestricted:		
Assigned by the Board of Directors	30,000,000	30,000,000
Unassigned	43,161,121	57,785,624
Total net assets	141,433,034	151,124,018
	$ 183,315,668	$ 167,721,278

The accompanying notes are an integral part of these financial statements.

PUBLIC CORPORATION FOR THE SUPERVISION AND INSURANCE OF COOPERATIVES IN PUERTO RICO
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
OPERATING REVENUES:		
Regular premiums	$ 15,226,516	$ 14,198,597
Other	42,558	148,374
Total operating revenues	15,269,074	14,346,971
OPERATING EXPENSES:		
Provision for probable losses	27,023,082	3,411,450
Employee compensation and benefits	5,368,000	4,447,790
General and administrative expenses	2,662,025	2,406,650
Depreciation and amortization	68,965	62,803
Total operating expenses	35,122,072	10,328,693
(LOSS)/INCOME FROM OPERATIONS	(19,852,998)	4,018,278
NON-OPERATING REVENUES:		
Interest	6,695,237	8,081,557
Net increase/(decrease) in market value of investments	1,003,535	(368,015)
CHANGES IN NET ASSETS BEFORE CAPITAL CONTRIBUTIONS	(12,154,226)	11,731,820
CAPITAL CONTRIBUTED BY INSURED CREDIT UNIONS	2,463,242	1,371,055
CHANGES IN NET ASSETS	(9,690,984)	13,102,875
NET ASSETS, beginning of year	151,124,018	138,021,143
NET ASSETS, end of year	$ 141,433,034	$ 151,124,018

The accompanying notes are an integral part of these financial statements.

PUBLIC CORPORATION FOR THE SUPERVISION AND INSURANCE OF COOPERATIVES IN PUERTO RICO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Regular premiums received	$ 15,090,870	$ 14,198,597
Losses paid, net of recoveries	(1,919,285)	(693,533)
Operating expenses paid	(7,848,447)	(6,970,923)
Other cash receipts	42,558	293,662
Net cash provided by operating activities	5,365,696	6,827,803
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES -		
Capital contributed by insured credit unions	2,463,242	1,371,055
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES -		
Capital expenditures	(25,687)	(110,468)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Proceeds from maturities of investment securities	585,339,878	435,188,299
Cash received from interest income	6,867,315	8,890,313
Purchases of investment securities	(599,990,466)	(452,281,956)
Net cash used in investing activities	(7,783,273)	(8,203,344)
INCREASE/(DECREASE) IN CASH	$ 19,978	$ (114,954)
CASH, BEGINNING OF YEAR	434,274	549,228
CASH, END OF YEAR	$ 454,252	$ 434,274
RECONCILIATION OF (LOSS)/INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
(Loss)/income from operations	$ (19,852,998)	$ 4,018,278
Adjustments to reconcile (loss)/income from operations to net cash provided by operating activities:		
Depreciation and amortization	68,965	62,803
Provision for probable losses	27,023,082	3,411,450
Losses paid, net of recoveries	(1,919,285)	(693,533)
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable and other operating assets	(135,645)	145,288
Increase/(decrease) in accounts payable, accrued expenses and other liabilities	181,577	(116,483)
Net cash provided by operating activities	$ 5,365,696	$ 6,827,803

The accompanying notes are an integral part of these financial statements.

1. NATURE OF BUSINESS

Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico (the "Corporation") is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth") created by Act No. 114 of August 17, 2001 (the "Act"), as amended. This Act superseded Act No. 5 of January 15, 1990, as amended.

The Corporation has the responsibility of making available insurance coverage for the shares and deposits of all the Cooperative Credit and Savings Unions in Puerto Rico as well as monitoring and supervising the financial condition of the insured and uninsured cooperatives. Effective on June 18, 2009, the Corporation increased the maximum insured amount from $100,000 to $250,000 per member or depositor, including individual retirement accounts.

The Corporation exercises direct supervisory authority over the cooperatives. Insured cooperatives are required to report certain financial and statistical information to the Corporation on a quarterly basis and are subject to periodic examinations by the Corporation. Information gathered through the supervisory and examination process provides the Corporation the ability to identify cooperatives experiencing managerial and/or financial difficulties ("troubled cooperatives") that may require support from the Corporation.

The Corporation assists troubled cooperatives in continuing their operations if these difficulties are considered to be temporary or correctable. This special assistance may be in the form of providing a management team selected by the Corporation and/or cash assistance. If continuation of the cooperative's operations with the Corporation's assistance is not feasible, a prospective buyer or merger partner may be sought.

The purchase by or merger of troubled cooperatives with stronger ones may also require the Corporation's assistance. Purchase or merger assistance may be in the form of funding or assuming certain assets and obligations by the Corporation (primarily loans).

When a cooperative is no longer able to continue operating and the purchase or merger assistance alternatives are not practical, the Corporation liquidates the cooperative, disposes of its assets, and pays members' deposits and shares up to the lower of the maximum insured amount or the members' total net balance. The Corporation sometimes guarantees the values of certain assets sold (primarily loans) to third party purchasers.

The Corporation's solvency is largely dependent on the degree, of financial strength of the insured institutions, their continued ability to generate sufficient cash flows to meet obligations on a timely basis, to obtain financing as may be required, and ultimately to continue attaining successful operations.

Article Number 30 of the Act authorizes the Corporation to borrow from financial institutions, as necessary, to finance its ongoing operations. The Act also authorizes the Department of Treasury of the Commonwealth to guarantee the payment of principal and interest on loans granted or-to be granted to the Corporation, as well as any other debt securities issued or to be issued by the Corporation up to a maximum of $30 million. The provisions of the mentioned Article are effective through June 30, 2010. As of June 30, 2009 and 2008, the Corporation had no outstanding borrowings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company conform with accounting principles generally accepted in the United States of America, and, as such, include amounts based on judgments, estimates and assumptions made by management that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Following is a description of the more significant accounting policies followed by the Company:

Financial Statements Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to a governmental enterprise fund, which are similar to those applied to a private entity. The Governmental Accounting Standards Board is the organization in charge of providing such accounting standards for governmental entities. The accounting principles require the Corporation to apply certain accounting standards similar to those applied in the private sector. As a result, the accompanying financial statements reflect specialized practices for insurance companies as established by the Government Accounting Standards Board and the Financial Accounting Standards Board.

Income Tax - The Corporation is exempt from taxation in Puerto Rico.

Receivership Operations - These financial statements do not include assets and liabilities of closed cooperatives for which the Corporation acts as receiver or liquidating agent. Also, the income and expenses attributable to receiverships are accounted for as transactions of those receiverships. Liquidation expenses incurred by the Corporation on behalf of the receiverships are generally recovered from those receiverships.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reporting period. Actual results could differ from those estimates (see Note 5).

Capital Contributed by Insured Cooperatives -Each insured cooperative must maintain in the Corporation, as capital contributions, an amount equal to or greater than one percent (1%) of the cooperative's total shares and deposits at June 30 of each year of operations.

The Corporation establishes the policies and procedures to determine annually the amount of the capital contribution that each insured cooperative should maintain, depending on how their shares and deposits vary. Likewise, it establishes the rules and procedures to determine the annual increment that is required in the total amount of capital contribution for increases in the insured cooperative's shares and deposits.

When the sum of the free reserves (not required for the payment of losses) and the total capital of the Corporation, exceeds two percent (2%) of the total insured cooperatives' shares and deposits, the Corporation may utilize this excess for the payment of interest on capital. Such interest will be determined based on the average rate of return of the total assets of the Corporation for the period of twelve months prior to the date in which the payment is made, reduced by one percent (1%). As of June 30, 2009, the Corporation did not exceed such requirement. As of June 30, 2008, the Corporation exceeded such limit and declared dividends amounting to $2,522,825 subsequent to year-end.

When an insured cooperative undergoes a reduction in its insured shares and deposits, it can reduce the total amount of the contributed capital that it should maintain in the Corporation for the corresponding year. In these cases, the contributed capital will not be adjusted or returned until the Corporation determines that such a reduction in shares and deposits is not due to a potential insolvency situation. The Corporation generally participates in the liquidation of troubled cooperatives. If a cooperative is finally liquidated at a loss, the Corporation charges the capital account for the amount contributed by the troubled institution and transfers such amount to the reserve for probable losses as a recovery.

Insurance Premiums - The annual premium is generally computed by applying the effective rate to the shares and deposits of the insured cooperatives as of June 30 of each year. Each insured cooperative should pay its corresponding annual premium in advance no later than July 31 of each year.

The Corporation determines, based on actuarial studies, the types of rates that will be used as the base for determining the insurance premiums. With the approval of the Board of Directors, the Corporation is able to establish uniform or variable rates, according to the risk exposures of each insured cooperative. The rate could vary from 0.04 percent to 0.2 percent of the total of shares and insured deposits. The Board of Directors may elect to establish higher rates if such rates are deemed necessary based on actuarial studies. The Corporation charged an average rate of 0.29 percent and 0.28 percent of total shares and deposits for the years ended June 30, 2009 and 2008, respectively.

Special Premium - If the Corporation experiences extraordinary losses, it may impose a special premium to the insured cooperatives, which will be allocated proportionately to insured cooperatives on the basis of the annual premium paid for the year in which the extraordinary loss occurred. This special premium shall not exceed one hundred percent (100%) of the total premium collected in said year. When the special premium imposed during a given year is not enough to cover the deficit in the operations of such year, that deficiency can be collected by the imposition, in following years, of additional special premiums for as many years as may be necessary and subject to the annual limit previously mentioned. The Corporation may obtain loans from public or private institutions and, when it is necessary for liquidity purposes, it may pledge as guarantee its future revenues from special premiums.

When the extraordinary losses are of such a magnitude that requires the imposition of a special premium for a term longer than four (4) years, the Board of Directors shall impose a rate increase and not a special premium. The premiums may be increased in one year of operation with the purpose of paying extraordinary losses by an amount not higher than one-hundred percent (100%) of the premium that was in force at the beginning of said year.

Capital Assets - Furniture and equipment with a cost greater than $500 are recorded as capital assets. Depreciation is provided using the straight-line method based on the estimated useful lives of the related assets. Estimated useful lives are three to five years for the furniture and equipment and three years for the computer systems.

The Corporation continually evaluates its capital assets under the Government Accounting Standards Board No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." Impairment losses are recognized if the capital asset's service utility has declined significantly and unexpectedly. During the years ended June 30, 2009 and 2008, no impairment losses were recognized.

Investment Securities - Governmental entities should report investments at fair value in the balance sheet. However, governmental entities are permitted to report certain investments at amortized cost if these have a remaining maturity of one year or less at the time of purchase.

Reserve for Probable Losses - The reserve for probable losses is increased by the provision charged to income and decreased by disbursements for claims, net of recoveries and receivables for subrogation. The reserve is determined based on periodic evaluations, including an analysis of the financial information for insured cooperatives. The probable reserve is reevaluated annually by management in consultation with independent actuaries, and any difference between the current estimates and the amounts recorded is reflected in the current period's operations.

U.S. GAAP requires that a reserve be maintained for only probable losses. The Board of Directors has decided to assign a portion of the unrestricted net assets to cover unexpected losses in excess of the reserve for probable losses.

Accounting for Pensions - The Corporation accounts for pension costs under the provisions of Government Accounting Standards Board Statement No. 27, "Accounting for Pensions by State and Local Government Employers." This Statement establishes standards for the measurement, recognition and display of pension expense and related liabilities in financial statements of state and local government employers and requires the employer to recognize pension expenditures equal to the required contribution to the plan.

Statements of Cash Flows - The accompanying statements of cash flows are presented in accordance with the provisions of Government Accounting Standards Board Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities that use Proprietary Fund Accounting."

For purposes of reporting cash flows, the Corporation considers cash on hand and deposits with depository institutions as cash and cash equivalents.

Capital Contributions - As required by Government Accounting Standards Board Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments," the financial statements present capital contributions from insured cooperatives in the statement of changes in financial position.

3. CASH

At June 30, 2009 and 2008, cash consist of:

	2009	2008
Petty cash	$ 500	$ 500
Deposits with financial institutions	453,752	433,774
	$ 454,252	$ 434,274

The cash balance includes $453,752 and $433,774, deposited with financial institutions which were uncollateralized and uninsured as of June 30, 2009 and 2008, respectively. Accordingly, such funds are classified under category 3 following the "Guide to Implementation of GASB Statement 3 on Deposit with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements."

4. INVESTMENTS

At June 30, 2009 and 2008, investments consist of:

	2009	2008
Puerto Rico Governmental Investment Trust Fund	$ 129,175	$ 524,004
Funds deposited with the Government Development Bank for Puerto Rico	20,652,820	3,495,405
Funds deposited with the Economic Development Bank	-	6,495,301
Certificates of deposit with commercial banks	49,847,180	60,009,294
United States government agencies obligations	2,949,510	3,016,890
United States government sponsored entities obligations	107,694,887	92,078,555
	$ 181,273,572	$ 165,619,449

At June 30, 2009, the maturities of these investments are as follow:

	Amortized Cost	Fair Market Value
Within one year	$ 70,629,175	$ 70,629,175
One to five years	110,000,000	110,644,397
	$ 180,629,175	$ 181,273,572

At June 30, 2008, the maturities of these investments are as follow:

	Amortized Cost	Fair Market Value
Within one year	$ 70,524,004	$ 70,524,004
One to five years	95,500,000	95,095,445
	$ 166,024,004	$ 165,619,449

Investments with a maturity date from one to five years consist of $3,000,000 (market value of $2,949,510) of United States government agencies obligations and of $107,000,000 (market value of $107,694,887) of United States government-sponsored entities obligations.

The investments in the Puerto Rico Government Investment Trust Fund (the "Trust Fund") have a fair value that approximates cost. The Trust Fund invests in high-grade money market instruments with a maturity of less than 60 days. The Trust Fund seeks to maintain a constant net asset value per unit of $1.00.

The weighted average yield of the investments portfolio was 3.26% and 3.89% as of June 30, 2009 and 2008, respectively. The face value of the investments portfolio was $180,500,000 and $165,500,000 as of June 30, 2009 and 2008, respectively. Management includes as investments all investment securities even if they contain an original maturity of three (3) months or less, which are commonly considered as cash equivalents.

Total investment purchases during 2009 and 2008 were approximately $600 million and $452.3 million, respectively. Investment maturities during 2009 and 2008 were approximately $585.4 million and $435.2 million, respectively. There were no investment sales during 2009 and 2008.

At June 30, 2009 and 2008 unrealized gains/(losses) in investments amounted to $598,980 and ($404,555), respectively.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from interest rates, the Corporation maintained over 39% and 42% of its investment portfolio in short-term investments at June 30, 2009 and 2008, respectively.

Credit Risk

The Corporation's investment policy limits the investments in debt securities to a classification not lower than BBB. Investments in commercial paper must have a credit rating equal or greater to P-1 by Moody's, or A-1 by Standard & Poors.

For the years ended June 30, 2009 and 2008, the Corporation's investment portfolio was composed of certificates of deposits with Puerto Rico commercial banks, funds deposited with the Government Development Bank of Puerto Rico, United States government agencies obligations, and United States government-sponsored entities obligations.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investments in a single issuer. At June 30, 2009 and 2008, the Corporation maintained over 39% and 42% of its investment portfolio in certificates deposits and short-term funds. The remaining portion of the investment portfolio was invested in United States government agencies obligations and United States government-sponsored entities obligations.

The distribution of such deposits on different financial institutions is as follows:

	2009	2008
Banco Gubernamental de Fomento	$ 20,652,820	$ 3,495,405
Banco Bilbao Vizcaya	17,748,302	16,901,978
Oriental Bank	12,811,889	13,704,599
First Bank	8,310,793	8,736,715
Banco Popular de Puerto Rico	7,976,196	14,275,505
Banco Santander de Puerto Rico	3,000,000	6,390,497
Banco de Desarrollo Económico	-	6,495,301
Other	129,175	524,004
	$ 70,629,175	$ 70,524,004

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Currently, the Corporation does not have a custodial credit risk policy. At June 30, 2009 and 2008, certificates of deposits are in the name of the Corporation. United States government agencies obligations and obligations backed by United States Government sponsored entities are in the custody of third parties and in the name of such parties.

5. CAPITAL ASSETS – NET

Capital assets consist of the following:

	Useful Lives (in years)	Balance June 30, 2008	Additions	Disposals	Balance June 30, 2009
Property	5	$ 35,000	$ -	$ -	$ 35,000
Office equipment	5	907,989	24,128	(15,959)	916,158
Computer systems	5	136,357	23,672	(2,725)	157,304
Leasehold improvements	5	121,965	2,500	-	124,465
Motor vehicles	5	97,413	-	(25,780)	71,633
		1,298,724	50,300	(44,464)	1,304,560
Less: Accumulated depreciation		(1,030,958)	(68,965)	19,851	(1,080,072)
		$ 267,766	$ (18,665)	$ (24,613)	$ 224,488

6. RESERVE FOR PROBABLE LOSSES

Independent consulting actuaries were engaged to provide actuarially developed estimates of the Corporation's reserve for probable losses on insured shares and deposits (see Note 1) as of June 30, 2009 and 2008, and to render a statement of opinion on such reserves.

The most recent actuarial report, dated September 15, 2009, stated that the probable loss reserves are based upon historical loss information for the period from 1995 through 2009 available for the line of business (shares and deposits insurance) insured by the Corporation. As established in the actuarial report, statistical methods were used during the actuarial analysis. First, the cooperatives' financial statements were restructured to present a panel data. Subsequently, an empirical loss distribution without saving per dollar insured was prepared. This empirical distribution was adjusted using the Weibull distribution methodology. Finally, the Monte Carlo simulation methodology was used to estimate the expected losses.

The report states that it should be expected that the actual payment of losses will vary, perhaps materially, from any estimate because the ultimate amount of losses is subject to the outcome of events that have not yet occurred. The report goes on to state that no assurance can therefore be given that the Corporation's actual losses will not ultimately exceed the estimates in the loss reserves analysis prepared by the independent actuaries.

The activity in the reserve for probable losses during the years ended June 30, 2009 and 2008, was as follows:

	2009	2008
Balance, beginning of year	$ 14,166,340	$ 11,448,423
Change in provision for the year	27,023,082	3,411,450
Losses paid	(1,972,745)	(759,231)
Recoveries	53,459	65,698
Balance, end of year	$ 39,270,136	$ 14,166,340

At June 30, 2009 and 2008, the Board of Directors has segregated $30 million of net assets to cover unexpected losses.

7. COMMITMENTS AND CONTINGENCIES

a) Lease Commitments

The Corporation leases its premises under an operating lease expiring on November 30, 2010. The lease agreement calls for monthly payments of approximately $35,948, including utilities and other related expenses.

Future minimum lease payments under operating lease agreements are the following:

FISCAL YEAR	AMOUNT
2010	$ 431,380
2011	170,764
	$ 602,144

b) Litigation

The Company is a defendant in certain legal actions arising in the ordinary course of business. Management believes, based on advice from legal counsel, that the ultimate outcome of these lawsuits will not materially affect the Corporation's financial position. At June 30, 2009 and 2008, the Corporation recognized $235,000 for possible losses from contingencies.

c) Concentrations

A geographic concentration exists within the cooperatives insured by the Corporation since all of the Corporation's insured institutions are located in Puerto Rico.

d) Off Balance Sheet Exposure: Shares and Deposits Insurance

As of June 30, 2009 and 2008, shares and deposits insured by the Corporation amounted approximately $6,579 million and $6,242 million, respectively. Such amounts represent the accounting loss if all insured cooperatives fail and the acquired assets provided no recoveries. The shares and deposits insured are those outstanding at the beginning of the year since the premiums are assessed and collected at the beginning of each fiscal year.

e) Off Balance Sheet Exposure: Asset Repurchase

Under the terms of certain purchase and sale of assets and obligations and assumption or merger agreements for troubled cooperatives entered into during prior fiscal years, the Corporation has agreed to repurchase certain loans and assume the risk for certain contingencies. The Corporation's management is of the opinion that any liabilities ultimately arising from these agreements will not be material to the Corporation's financial condition or results of operations.

8. RETIREMENT SYSTEM

The Employees' Retirement System of the Commonwealth and its instrumentalities ("Retirement System") (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 Corporation under 55 years of age at the date of employment become members of the Retirement System as a condition to their employment.

The Retirement 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 non-occupational disabilities. However, a member must have at least ten years of service to receive non-occupational disability benefits. Retirement benefits depend upon age at retirement and the number of years of creditable service. Benefits vest after ten years of plan participation.

Members who have attained at least 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 for life.

The amount of the annuity shall be one and a half percent of the average compensation, as defined, multiplied by the number of years of creditable service up to twenty years, plus two percent of the average compensation, as defined, multiplied by the number of years of creditable service in excess of 20 years: In no case, the annuity will be less than $200 per month.

Participants who have completed at least 30 years of creditable service are entitled to receive the Merit Annuity. Participants who have not attained 55 years of age will receive 65 percent of the average compensation, as defined; otherwise they will receive 75 percent of the average compensation, as defined. No benefits are payable if the participant receives a refund of his/her accumulated contributions.

Employees hired before April 1, 1990, are required to contribute 5.775% for the first $550 of their monthly gross salary and 8.275% for the excess over $550 of monthly gross salary. Employees initially hired after such date are required to contribute at least 8.275% of their monthly gross salary. The Corporation is required by the same statute to contribute 9.275% of the participant's gross salary. Total employer contributions during the years ended June 30, 2009 and 2008, amounted to approximately $339,000 and $309,000, respectively.

On September 24, 1999, an amendment to Act No. 447 of May 15, 1951, which created the Retirement System, was enacted with the purpose of establishing a new pension program ("System 2000").

System 2000 became effective on January 1, 2000. Employees participating in the current system as of December 31, 1999, may elect either to stay in the defined benefit plan or transfer to the new program. Persons joining the government on or after January 1, 2000, win only be allowed to become members of System 2000.

System 2000 is a hybrid defined contribution plan, also known as a cash balance plan. Under this new plan, there will be a pool of pension assets which will be invested by the System, together with those of the current defined benefit plan. Benefits at retirement age will not be guaranteed by the Commonwealth. The annuity will be based on a formula which assumes that each year the employee's contribution (with a minimum of 8.275% of the employee's salary up to a maximum of 10%) will be invested in an account which will either: (1) earn a fixed rate based on the two-year Constant Maturity Treasury Note or, (2) earn a rate equal to 75% of the return of the Retirement System's investment portfolio (net of management fees), or (3) earn a combination of both alternatives. Participants will receive periodic account statements similar to those of defined contribution plans showing their accrued balances. Disability pensions will not be granted under System 2000. The employers' contributions (9.275% of the employee's salary) will be used to fund the current plan. System 2000 will reduce the retirement age from 65 years to 60 for those employees who joined the current plan on or after April 1, 1990.

Additional information on the Retirement System is provided in its financial statements for the year ended June 30, 2009, a copy of which can be obtained from the Retirement System.

9. SUPPLEMENTARY INFORMATION

The supplementary information required under Governmental Accounting Standards Board Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," is not presented because the claims involved in the deposit insurance business generally do not have a predictable development period.