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

BASIC FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
AND
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of the
Economic Development Bank for Puerto Rico:

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Economic Development Bank for Puerto Rico (the "Bank"), a component unit of the Commonwealth of Puerto Rico (the "Commonwealth"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Basic Financial Statements

Management is responsible for the preparation and fair presentation of these basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the basic financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the basic financial statements in order to design 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 controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

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Basis for Qualified Opinion and Note Disclosure Regarding Pensions

As discussed in Note 1 to the basic financial statements, the Bank does not have the information available to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board, *"Accounting and Financial Reporting for Pensions"*, an amendment of GASB Statement No. 27. Accordingly, the Bank has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs.

Accounting principles generally accepted in the United States of America require that pension related liability, deferred outflow of resources, deferred inflow of resources, as applicable, be recognized in accordance with the parameters established by Statement No. 68, as well as the effect of current period changes of the aforementioned amounts that must be recognized in pension expense during the current period. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses. The amounts by which this departure would affect liabilities, deferred outflow of resources, deferred inflow of resources, deficit, and expenses, beginning net position and beginning fund balance, if any, has not been determined.

The accompanying notes to the basic financial statements do not disclose the pension cost information required by Statement No. 68. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion Regarding Allowance for Loan Losses

As discussed in Note 1 to the basic financial statements, the Bank changed its methodology to calculate its allowance for loan losses during the year ended June 30, 2015. This methodology does not follow accounting principles generally accepted in the United States of America ("US GAAP") and ASC 310-10 for specific reserve calculation.

US GAAP requires that the specific reserve should be calculated based on the expected future cash flows of impaired loans or the market value of the underlying collateral of impaired loans. Specific reserves should account for any deficiency between the unpaid principal balance and the present value of the expected future cash flows or market value of underlying collateral. If the basic financial statements were corrected for this departure from US GAAP, the allowance for loan losses, the provision for loan losses and the net operating loss of the Bank would have increased, and the net position would have decreased by approximately $10.2 million, respectively.

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Qualified Opinion

In our opinion, except for the possible effects of the matters described above in the Basis for Qualified Opinion and Note Disclosure Regarding Pensions and Basis for Qualified Opinion Regarding Allowance for Loan Losses paragraphs, the 2015 basic financial statements referred to above present fairly, in all material respects, the financial position of the Economic Development Bank for Puerto Rico as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Basic Financial Statements

The basic financial statements of the Bank as of June 30, 2014, were audited by other auditors whom report dated October 22, 2014, expressed an unmodified opinion on those basic financial statements.

Emphasis of Matter

As discussed in Note 20 to the basic financial statements, the Bank is reported as part of the Commonwealth of Puerto Rico ("Commonwealth"). As of June 30, 2015, and subsequently, the financial condition and liquidity of the Commonwealth have deteriorated. The financial difficulties experienced by the Commonwealth included the uncertainty as to the ability to fully satisfy its obligations. Considering that most of the Bank's deposits are from agencies from the Commonwealth of Puerto Rico, any further deterioration in the Commonwealth's financial condition could have an adverse effect in the Bank's ability to continue its operations. Our report was not modified with respect to this matter.

As discussed in Note 1, the basic financial statements present only the operations of the Bank and do not purport to, and do not present fairly the financial position of the Commonwealth of Puerto Rico as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with US GAAP. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information Omitted

The Bank has omitted the Schedule of the Bank's Proportionate Share of the Net Pension Liability, and the Schedule of the Bank's Contributions to the Employees' Pension Plan, information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 to 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BDO Puerto Rico, PSC

San Juan, Puerto Rico

April 7, 2016

Certified Public Accountants
(of Puerto Rico)
License No. 53 expires December 1, 2018
Stamp E195578 of the P.R Society of
Certified Public Accountants has been
affixed to the file copy of this report

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section discussion contains an analysis of the statements of net position of the Economic Development Bank for Puerto Rico (the "Bank") as of June 30, 2015 and 2014, 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 for 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 and venture capital funds. The required financial statements for an enterprise fund are as follows: statement of net position; statement of revenue, expenses, and changes in net position; 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 position includes all the Bank's assets and liabilities, classified as current, noncurrent, capital assets, and net position. 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 position 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 non-interest 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 realized and unrealized gains (losses) on investments decreased $10.7 million in 2015, from a net gain of $2.5 million in 2014 to a net loss of $8.2 million in 2015.
- Interest income from loans amounted to $17 million in 2015, a $1.7 million or approximately 11.3% increase from $15.3 million in 2014.

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- Net income decreased $3.1 million in 2015 or 53%, from a net income of $5.9 million in 2014 to a net income of $2.8 million in 2015.

As mentioned above, the Bank reported a Net Income of $2.8 million for the year ended June 30, 2015, a $3.1 million decrease when compared to the Net Income of $5.9 million reported for the year ended June 30, 2014.

The main reason for this variance was a decrease in Non-Interest Income of approximately $10.2 million, from a $2.9 million gain in 2014 to a $7.3 million loss in 2015. At the same time, this decrease was mainly due to net realized and unrealized losses on investments in 2015 of $8.3 million, compared to net realized and unrealized gains on investments in 2014 of $2.5 million.

The net realized and unrealized losses on investment of 2015 results from the combined effect of $6.1 million net unrealized losses (non-cash) in venture capital investments, $1.8 million net unrealized losses (non-cash) in investment securities and approximately $300,000 in net realized losses from the disposition of investments, as follows:

	2015	2014
Net realized and unrealized gains/(losses) on investments:		
(Loss)/gain on sales of investments	$ (306,741)	$ 2,805,089
Unrealized loss on valuation of investment securities	(1,846,337)	(2,043,999)
Unrealized (loss)/gain on valuation of venture capital investments	(6,128,872)	1,672,074
Dividends	7,000	48,000
	$ (8,274,950)	$ 2,481,164

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At the same time, the unrealized (non-cash) gain/(loss) on valuation of venture capital investments details as follows:

	2015	2014
Unrealized (loss)/gain on valuation of venture capital investments:		
Valuation (losses)/gains - external investment pools		
Guayacán Private Equity Fund, LP	$ (5,728,379)	$ 16,454
Guayacán Private Equity Fund, LP II	106,842	2,156,858
Venture Capital Fund, Inc.	(390,025)	(275,476)
PR Entrepreneurs Fund, LP	122,090	24,238
	(5,889,472)	1,922,074
Valuation losses - direct equity investments:		
E-Nabler, Inc.	–	(170,000)
General Reserve	(239,400)	(80,000)
	(239,400)	(250,000)
	$ (6,128,872)	$ 1,672,074

As can be noted, the main driver for these losses in 2015 is the valuation of the Guayacán Private Equity Fund (GPEF), which in FY 2015 recorded an unrealized loss of $5.7 million. Within the GPEF, the individual investment with the greatest effect in the fund valuation is the one in Medical Card System, Inc. (MCS), which from 6/30/14 to date has dropped over 66% of its value, or around $14.1 million (EDB share at a 47.65% ownership came off to approximately $6.7 million during 2015). This resulted from the current healthcare crisis in Puerto Rico, specifically the reduction of 11%, or more, in Medicare Advantage rates for Puerto Rico (while the US average has increased 3%) and the imposition of the Healthcare Insurance Tax, included in the Patient Protection and Affordable Care Act.

Nonetheless, it should be noted that the GPEF has been a very profitable investment, having an average annual return of over 12% during the years since it was acquired from the Government Development Bank of Puerto Rico (GDB) in 2006. Especially because of its investment in MCS which, notwithstanding the current negative effect on the Fund's financials, has been one of the Funds most successful investments and has provided significant returns.

The Fund originally invested $3.4 million in MCS and has received cash distributions of $54.4 million, representing 16.0X its original investment. Just based on this cash return, and assuming no further distribution on the Fund's MCS investment, the investment in MCS has yielded an IRR of over 30% to the Fund.

In addition to the losses in venture capital investments, the Bank recorded an unrealized (non-cash) loss in the valuation of investment securities for 2015 of $1.8 million, which compares favorably with the unrealized loss in valuation of investments securities for 2014 of $2.0 million.

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These losses resulted mainly from the valuation of the Bank's investments in Puerto Rico debt. The Bank had investments in PR debt of $17.7 and $152.7 million at June 30, 2015 and 2014, respectively. These investments were made with short term maturities in order to take benefit of high interest returns. All of the matured investments in PR debt to date have been repaid at par value and unrealized losses taken on individual securities have been reversed.

It should be noted that as of May 31, 2015 the Bank had a recorded year to date unrealized gain in investment securities of $240,000, and it was not until the Puerto Rico government news of late June 2015, about its inability to repay all of its debt, that a $2.1 million unrealized loss in investment securities was recorded, resulting in the $1.8 million presented in the financial statements.

In conclusion, other than the line of Other Noninterest Income in the Statement of Revenues and Expenses for the year ended June 30, 2015, EDB financials exhibit positive results in terms of the Bank's ability to generate net interest income and to adequately control its operating expenses.

Comparison of 2015 and 2014 Assets, Liabilities, and Net Position

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

Net Position	2015	2014	Increase/(decrease) Amount	Increase/(decrease) Percentage
Assets:				
Current assets	$ 175,018	$ 339,895	$ (164,877)	(49)%
Noncurrent assets	669,870	750,351	(80,481)	(11)%
Total assets	844,888	1,090,246	(245,358)	(23)%
Liabilities:				
Current liabilities	256,846	468,298	(211,452)	(45)%
Noncurrent liabilities	419,207	455,950	(36,743)	(8)%
Total liabilities	676,053	924,248	(248,195)	(27)%
Net position:				
Invested in capital assets, net of related debt	308	(110)	418	(380)%
Restricted for special loan programs	23,837	18,077	5,760	32%
Unrestricted	144,690	148,030	(3,340)	(2)%
Net position	$ 168,835	$ 165,997	$ 2,838	2%

At June 30, 2015, the Bank's total assets were $845 million ($52.9 million from EDBCI) compared to $1,090.2 million at June 30, 2014 ($57.9 million from EDBCI). The decrease of $245.4 million represents 22.5% of the 2014 total assets balance.

Total loan portfolio decreased by 5.5% when compared to balances as of June 30, 2014. Loan disbursements decreased from $177.5 million in 2014 to $121.6 million in 2015, while principal collected on loans decreased from $127.5 million for fiscal year 2014 to $121.3 million for fiscal

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year 2015. The related allowance for loan losses decreased by $14.7 million or 43% of the 2014 balance. The net loan portfolio decreased by $4.1 million.

In 2015, Management changed the methodology by which the allowance for loan losses is calculated. In prior years the adequacy of the allowance was based on an evaluation of the portfolio, past loan loss experience, economic conditions, volume growth, composition of the loan portfolio, and other relevant factors. For 2015 it was calculated similarly, except for an adjustment to establish the allowance at a level of at least the maximum balance of annual loan losses sustained during the previous three years. Under this new methodology, management postulates that the allowance will be sufficient to absorb next year's loan losses, up to the maximum annual loan losses observed during the previous three years. Historically, the loan losses allowance at the end of year has always significantly exceeded the next year's loan losses.

Management implemented this change in accounting estimate taking into consideration that the Bank is a government/not for profit institution, whose mission is to carry out public policy on economic development. Unlike private and commercial financial institutions, the Bank does not respond to private shareholders and is prohibited from accepting deposits from individuals, and notably limited in accepting deposits from private institutions. The Bank's main source of liquidity is other government institutions, which are part of the same administrative apparatus.

Would management have maintained the methodology of calculating the allowance for loan losses used in prior years, the balance of the allowance would have been approximately $29.5 million.

Interest-bearing deposits with other banks, commercial paper, investments, and securities purchased under agreements to resell decreased by $236.4 million when compared to balances as of June 30, 2014, mainly due to a decrease of $199.5 million in time deposits.

At June 30, 2015, the Bank's total liabilities were $676.1 million compared to $924.2 million at June 30, 2014. The decrease of $248.1 million represents 26.8% of the 2014 total liabilities.

Total time deposits were $212.1 million as of June 30, 2015. Time deposits consist primarily of certificates of deposit of public funds from other governmental institutions, which totaled $200.8 million. Deposits from other financial institutions were $11.3 million. Total time deposits decreased by $199.5 million. As of year-end, the total promissory notes and other note payable balance was $420.4 million.

Securities sold under agreement to repurchase decreased by $16.9 million, from $45.7 million in 2014 to $28.8 million in 2015. 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 position of $168.8 million at June 30, 2015, and an increase of $2.8 million or 1.7% when compared to June 30, 2014. Additional information about net position composition is presented in Note 11 to the basic financial statements.

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Comparison of 2015 and 2014 Revenue, Expenses, and Changes in Net Position

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

Revenue, Expenses, and Changes in Net Position	2015	2014	Increase/(decrease) Amount	Percentage
Interest income:				
Interest income from loans	$ 17,022	$ 15,293	$ 1,729	11%
Interest income from investments	25,678	35,832	(10,154)	(28)%
Total interest income	42,700	51,125	(8,425)	(16)%
Total non-interest (loss)/income	(7,331)	2,918	(10,249)	(351)%
Total operating revenue	35,369	54,043	(18,674)	(35)%
Operating expenses:				
Provision for loan losses	2,200	10,960	(8,760)	(80)%
Total interest expense	22,778	29,559	(6,781)	(23)%
Total noninterest expenses	12,986	12,425	561	5%
Total operating expenses	37,964	52,944	(14,980)	(28)%
Operating (loss)/income	(2,595)	1,099	(3,694)	(336)%
Capital contribution	5,433	4,816	617	13%
Net income and change in net position	$ 2,838	$ 5,915	$ (3,077)	(52)%

For the year ended June 30, 2015, the Bank presents an operating loss of $2.6 million when compared to the operating income of $1.1 million for the year ended June 30, 2014. The decrease in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income decreased by approximately 16.5% or $8.4 million, from $51.1 million in 2014 to $42.7 million in 2015. This decrease in interest income was mainly the result of decreased average transaction volumes during the fiscal year, netted by a slight increase in average interest rates.

b. Non-interest Income

Non-interest income decreased by approximately $10.2 million, from a $2.9 million gain in fiscal year 2014 to a $7.3 million loss in 2015. This decrease was mainly due to net realized and unrealized losses on investments of $8.3 million.

The net realized and unrealized losses on investment result from the combined effect of $6.1 million net unrealized losses in venture capital investments, $1.8 million net unrealized losses in investment securities and approximately $300,000 net realized losses from the disposition of certain investments.

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c. **Provision for Loan Losses**

Compared to 2014, the provision for loan losses shows a decrease of $8.8 million. Impaired loans requiring an allowance for loan losses decreased by $11.7 million, from $42.3 million in 2014 to $30.6 million in 2015, and the specific reserve for these decreased by $6.3 million, from $13.6 million to $7.3 million. As a percentage of the total loans portfolio, impaired loans represent 34.8% and 28.1% at June 30, 2015 and 2014, respectively. Loans charged off during fiscal year 2015 increased by $4.3 million when compared to 2014, from $14.9 million in 2014 to $19.2 million in 2015. As a percentage of the total loans portfolio, the allowance for loan losses represents 5.9% and 9.9% at June 30, 2015 and 2014, respectively.

Loan collections decreased from $127.5 million during fiscal year 2014 to $121.3 million for fiscal year 2015.

d. **Interest Expense**

Total interest expense decreased by 22.9% or $6.8 million, from $29.6 million in 2014 to $22.8 million in 2015. This decrease in interest expense was mainly the result of decreased average principal balances owed.

e. **Non-interest Expenses**

Non-interest expenses increased by approximately $560,000 or 4.5% during fiscal year 2015. This increase in non-interest expenses resulted from the net effect of the following:

- Provision for foreclosed assets increased 55.6% or $500,000, from $900,000 in 2014 to $1.4 million in 2015.
- Salaries and employee benefits decreased by 6.1% or $519,000, from approximately $8.6 million in 2014 to approximately $8.1 million in 2015. The decrease is mainly due to a decrease in employee benefits.
- Occupancy and related expenses (including depreciation and amortization) increased by 3.3% or $23,000, from approximately $707,000 in 2014 to approximately $730,000 in 2015.
- Advertising expense increased by 32% or $85,000, from approximately $263,000 in 2014 to approximately $348,000 in 2015.
- Professional fees decreased by 1.9% or $7,000, from approximately $382,000 in 2014 to approximately $375,000 in 2015.

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- All other non-interest expenses increased by 30.9% or $496,000, from approximately $1.6 million in 2014 to approximately $2.1 million in 2015. The increase is mainly due to contributions to the central government's General Fund for approximately $418,000.

Comparison of 2014 and 2013 Assets, Liabilities, and Net Position

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

Net position	2014	2013	Increase/(decrease) Amount	Increase/(decrease) Percentage
Assets:				
Current assets	$ 339,895	$ 143,231	$ 196,664	137%
Noncurrent assets	750,351	1,151,936	(401,585)	(35)%
Total assets	1,090,246	1,295,167	(204,921)	(16)%
Liabilities:				
Current liabilities	468,298	416,792	51,506	12%
Noncurrent liabilities	455,950	718,293	(262,343)	(37)%
Total liabilities	924,248	1,135,085	(210,837)	(19)%
Net position:				
Invested in capital assets, net of related debt	(110)	(530)	420	(79)%
Restricted for special loan programs	18,077	13,259	4,818	36%
Unrestricted	148,030	147,353	677	—%
Net position	$ 165,997	$ 160,082	$ 5,915	4%

At June 30, 2014, the Bank's total assets were $1,090.2 million ($57.9 million from EDBCI) compared to $1,295.2 million at June 30, 2013 ($286.4 million from EDBCI). The decrease of $205 million represents 15.8% of the 2013 total assets balance.

Total loan portfolio increased by 11.3% when compared to balances as of June 30, 2013. Loan disbursements decreased from $191.9 million in 2013 to $177.5 million in 2014, while principal collected on loans decreased from $143.7 million for fiscal year 2013 to $127.5 million for fiscal year 2014. The related allowance for loan losses decreased by $1.7 million or 4.8% of the 2013 balance. The net loan portfolio increased by $36.8 million.

Interest-bearing deposits with other banks, commercial paper, investments, and securities purchased under agreements to resell decreased by $242.1 million when compared to balances as of June 30, 2013, mainly due to a decrease of $261.8 million in promissory notes.

At June 30, 2014, the Bank's total liabilities were $924.2 million compared to $1,135.1 million at June 30, 2013. The decrease of $210.9 million represents 18.6% of the 2013 total liabilities.

Total time deposits were $411.7 million as of June 30, 2014. Time deposits consist primarily of certificates of deposit of public funds from other governmental institutions, which totaled

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$390.3 million. Deposits from other financial institutions were $21.4 million. Total time deposits increased by $81.4 million. As of year-end, the total promissory notes and other note payable balance was $441.2 million.

Securities sold under agreement to repurchase decreased by $30.5 million, from $76.2 million in 2013 to $45.7 million in 2014. 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 position of $166 million at June 30, 2014, an increase of $5.9 million or 3.7% when compared to June 30, 2013. Additional information about net position composition is presented in Note 11 to the basic financial statements.

Comparison of 2014 and 2013 Revenue, Expenses, and Changes in Net Position

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

Revenue, expenses, and changes in net position	2014	2013	Increase/(decrease) Amount	Percentage
Interest income:				
Interest income from loans	$ 15,293	$ 14,268	$ 1,025	7%
Interest income from investments	35,832	53,562	(17,730)	(33)%
Total interest income	51,125	67,830	(16,705)	(25)%
Total non-interest income (loss)	2,918	1,075	1,843	171%
Total operating revenue	54,043	68,905	(14,862)	(22)%
Operating expenses:				
Provision for loan losses	10,960	10,788	172	2%
Total interest expense	29,559	44,102	(14,543)	(33)%
Total noninterest expenses	12,425	13,903	(1,478)	(11)%
Total operating expenses	52,944	68,793	(15,849)	(23)%
Operating income	1,099	112	987	881%
Capital contribution	4,816	2,458	2,358	96%
Net income and change in net position	$ 5,915	$ 2,570	$ 3,345	130%

For the year ended June 30, 2014, the Bank presents an operating income of $1.1 million when compared to the operating income of $111,000 for the year ended June 30, 2013. The increase in operating income resulted from the net effect of the following:

(a) Interest Income

Total interest income decreased by approximately 24.6% or $16.7 million, from $67.8 million in 2013 to $51.1 million in 2014. This decrease in interest income was mainly the result of decreased average transaction volumes during the fiscal year, with basically no change in average interest rates.

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(b) Noninterest Income

Noninterest income increased by approximately $1.8 million, from $1.1 million in fiscal year 2013 to $2.9 million income in 2014. This increase was mainly due to an increase in the net realized and unrealized gains on investments of $2.1 million.

The increase in the net realized and unrealized gains on investment results from the combined effect of a $894,000 decrease in net unrealized gains of investment securities and a $3 million increase in net realized gains from the disposition of certain investments.

(c) Provision for Loan Losses

Compared to 2013, the provision for loan losses shows an increase of $172,000. Impaired loans requiring an allowance for loan losses decreased by $4.7 million, from $47 million in 2013 to $42.3 million in 2014, and the specific reserve for these decreased by $1.7 million, from $15.3 million to $13.6 million. As a percentage of the total loans portfolio, impaired loans represent 28.1% and 28% at June 30, 2014 and 2013, respectively. Loans charged off during fiscal year 2014 increased by $5.4 million when compared to 2013, from $9.5 million in 2013 to $14.9 million in 2014. As a percentage of the total loans portfolio, the allowance for loan losses represents 9.9% and 11.5% at June 30, 2014 and 2013, respectively.

Loan collections decreased from $143.7 million during fiscal year 2013 to $127.5 million for fiscal year 2014.

(d) Interest Expense

Total interest expense decreased by 33% or $14.5 million, from $44.1 million in 2013 to $29.6 million in 2014. This decrease in interest expense was the result of decreased average principal balances owed.

(e) Noninterest Expenses

Noninterest expenses decreased by approximately $1.5 million or 10.6% during fiscal year 2014. This decrease in noninterest expenses resulted from the net effect of the following:

- Provision for losses on loan guarantees decreased from $1,062,000 in 2013 to $16,000 in 2014. The decrease is due to a reduction in loan guarantees paid under the Loan Guarantee Program created by Law no. 9 of the Commonwealth of Puerto Rico in May 9, 2009. Funds for payment of these guarantees were assigned to the Bank under Executive Order OE-2010-005, recorded as a reserve for possible losses on loan guarantees and reclassified to capital contribution in the Statement of Revenue, Expenses, and Changes in Net Position for the year ended June 30, 2014.

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- Provision for foreclosed assets decreased 10% or $100,000, from $1 million in 2013 to $900,000 in 2014.

- Salaries and employee benefits decreased by 3.6% or $319,000, from approximately $8.9 million in 2013 to approximately $8.6 million in 2014. The decrease is mainly due to a decrease in total headcount.

- Occupancy and related expenses (including depreciation and amortization) decreased by 6.2% or 47,000, from approximately $754,000 in 2013 to approximately $707,000 in 2014.

- Advertising expense increased by 2.5% or $6,000, from approximately $257,000 in 2013 to approximately $263,000 in 2014.

- Professional fees increased by 22.6% or $70,000, from approximately $312,000 in 2013 to approximately $382,000 in 2014. The increase is mainly due to an increase in other professional services during 2014, mainly consultants for the Credit area.

- All other noninterest expenses decreased by approximately $44,000 as compared to fiscal year 2012.

Analysis of the Overall Financial Position and Results of Operations

The average balance of funds available from deposits and the related investments reflect a decrease when comparing 2015 to 2014, mainly due to a decrease in time deposits. When compared with fiscal year 2014, time deposits balances from other governmental and financial institutions decreased 48.5% or $199.5 million in 2015, providing tolerable levels of funding to maintain the Bank's activities. Interest rates during fiscal years 2015 and 2014 remained low.

During the fiscal years 2015 and 2014, $2,312,000 and $2,270,000 were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2015, approximately $300,000 in capital assets were acquired and approximately $117,000 were retired. During the same period, $29.2 million in promissory notes matured or amortized, while none were issued. As of year-end, the total promissory notes and other note payable balance was $412 million. Additional information about capital assets and long-term debt activity is presented in Notes 5 and 9 to the basic financial statements, respectively.

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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.

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
CURRENT ASSETS:				
Cash and due from banks	$ 6,826,075	$ -	$ -	$ 6,826,075
Interest-bearing deposits and commercial paper	10,800,000	11,597,069	(11,597,069)	10,800,000
Investments	18,875,175	-	-	18,875,175
Loans, net of allowance for loan losses of $11,455,678	131,277,915	-	-	131,277,915
Accrued interest receivable	7,239,760	1,015	(1,015)	7,239,760
Due from other fund	1,117,831	-	(1,117,831)	-
Total current assets	176,136,756	11,598,084	(12,715,915)	175,018,925
NON-CURRENT ASSETS:				
Investments	439,645,190	41,273,033	-	480,918,223
Loans, net of allowance for loan losses of $7,847,979	175,172,982	-	-	175,172,982
Other assets	5,076,567	-	-	5,076,567
Capital assets:				
Land	2,735,000	-	-	2,735,000
Building and improvements	11,589,506	-	-	11,589,506
Furniture and equipment	5,121,878	-	-	5,121,878
Less: accumulated depreciation and amortization	(10,744,572)	-	-	(10,744,572)
Total capital assets	8,701,812	-	-	8,701,812
Total non-current assets	628,596,551	41,273,033	-	669,869,584
Total assets	$ 804,733,307	$ 52,871,117	$ (12,715,915)	$ 844,888,509
LIABILITIES				
CURRENT LIABILITIES:				
Time deposits	$ 223,734,975	$ -	$ (11,597,069)	$ 212,137,906
Securities sold under agreements to repurchase	28,756,000	-	-	28,756,000
Accrued interest payable	6,310,844	-	(1,015)	6,309,829
Promissory notes and other note payable	7,237,326	-	-	7,237,326
Due to other fund	-	1,117,831	(1,117,831)	-
Other current liabilities	2,405,525	(402)	-	2,405,123
Total current liabilities	268,444,670	1,117,429	(12,715,915)	256,846,184
NON-CURRENT LIABILITIES:				
Promissory notes and other note payable	413,154,586	-	-	413,154,586
Other liabilities	6,052,481	-	-	6,052,481
Total non-current liabilities	419,207,067	-	-	419,207,067
Total liabilities	$ 687,651,737	$ 1,117,429	$ (12,715,915)	$ 676,053,251
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	$ 307,816	$ -	$ -	$ 307,816
RESTRICTED FOR SPECIAL LOAN PROGRAMS	23,837,445	-	-	23,837,445
UNRESTRICTED	92,936,309	51,753,688	-	144,689,997
Total net position	$ 117,081,570	$ 51,753,688	$ -	$ 168,835,258

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

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
CURRENT ASSETS:				
Cash and due from banks	$ 6,155,939	$ -	$ -	$ 6,155,939
Interest-bearing deposits and commercial paper	-	11,605,775	(11,605,775)	-
Securities purchased under agreements to resell	55,727,000	-	-	55,727,000
Investments	138,982,584	-	-	138,982,584
Loans, net of allowance for loan losses of $11,697,394	129,719,826	-	-	129,719,826
Accrued interest receivable	9,309,800	903	(903)	9,309,800
Due from other fund	12,489	-	(12,489)	-
Total current assets	339,907,638	11,606,678	(11,619,167)	339,895,149
NON-CURRENT ASSETS:				
Investments	506,016,578	46,309,048	-	552,325,626
Loans, net of allowance for loan losses of $22,324,149	180,866,685	-	-	180,866,685
Other assets	8,344,709	-	-	8,344,709
Capital assets:				
Land	2,735,000	-	-	2,735,000
Building and improvements	11,503,087	-	-	11,503,087
Furniture and equipment	5,024,805	-	-	5,024,805
Less: accumulated depreciation and amortization	(10,449,474)	-	-	(10,449,474)
Total capital assets	8,813,418	-	-	8,813,418
Total non-current assets	704,041,390	46,309,048	-	750,350,438
Total assets	$ 1,043,949,028	$ 57,915,726	$ (11,619,167)	$ 1,090,245,587
LIABILITIES				
CURRENT LIABILITIES:				
Time deposits	$ 423,289,720	$ -	$ (11,605,775)	$ 411,683,945
Securities sold under agreements to repurchase	45,690,000	-	-	45,690,000
Accrued interest payable	7,541,707	-	(903)	7,540,804
Promissory notes and other note payable	528,924	-	-	528,924
Due to other fund	-	12,489	(12,489)	-
Other current liabilities	2,854,936	(401)	-	2,854,535
Total current liabilities	479,905,287	12,088	(11,619,167)	468,298,208
NON-CURRENT LIABILITIES:				
Promissory notes and other note payable	449,608,684	-	-	449,608,684
Other liabilities	6,341,481	-	-	6,341,481
Total non-current liabilities	455,950,165	-	-	455,950,165
Total liabilities	$ 935,855,452	$ 12,088	$ (11,619,167)	$ 924,248,373
NET POSITION				
NET INVESTMENT IN CAPITAL ASSETS	$ (109,502)	$ -	$ -	$ (109,502)
RESTRICTED FOR SPECIAL LOAN PROGRAMS	18,076,756	-	-	18,076,756
UNRESTRICTED	90,126,322	57,903,638	-	148,029,960
Total net position	$ 108,093,576	$ 57,903,638	$ -	$ 165,997,214

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
OPERATING REVENUE:				
INTEREST INCOME:				
Deposits with other banks and commercial paper	$ 34,062	$ 41,191	$ (41,191)	$ 34,062
Securities purchased under agreements to resell	415,178	-	-	415,178
Investments	25,228,580	-	-	25,228,580
Loans	17,022,100	-	-	17,022,100
Total interest income	42,699,920	41,191	(41,191)	42,699,920
NON-INTEREST INCOME:				
Net realized and unrealized losses on investments	(2,153,079)	(6,121,871)	-	(8,274,950)
Other income	993,535	-	(49,454)	944,081
Total noninterest loss	(1,159,544)	(6,121,871)	(49,454)	(7,330,869)
Total operating revenue/(loss)	41,540,376	(6,080,680)	(90,645)	35,369,051
OPERATING EXPENSES:				
Provision for loan losses	2,200,000	-	-	2,200,000
INTEREST EXPENSE:				
Time deposits	2,537,090	-	(41,191)	2,495,899
Securities sold under agreements to repurchase	158,211	-	-	158,211
Promissory notes and other note payable	20,124,506	-	-	20,124,506
Total interest expense	22,819,807	-	(41,191)	22,778,616
NON-INTEREST EXPENSE:				
Salaries and employee benefits	8,034,262	-	-	8,034,262
Depreciation and amortization	387,366	-	-	387,366
Occupancy and related expenses	342,753	-	-	342,753
Professional fees	354,921	69,270	(49,454)	374,737
Advertising	347,967	-	-	347,967
Other	3,498,791	-	-	3,498,791
Total non-interest expenses	12,966,060	69,270	(49,454)	12,985,876
Total operating expenses	37,985,867	69,270	(90,645)	37,964,492
Operating loss	3,554,509	(6,149,950)	-	(2,595,441)
Capital contribution	5,433,485	-	-	5,433,485
Increase/(decrease) in net position	8,987,994	(6,149,950)	-	2,838,044
TOTAL NET POSITION, beginning of year	108,093,576	57,903,638	-	165,997,214
TOTAL NET POSITION, end of year	$117,081,570	$ 51,753,688	$ -	$168,835,258

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2014

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
OPERATING REVENUE:				
INTEREST INCOME:				
Deposits with other banks and commercial paper	$ 114,650	$ 54,366	$ (54,366)	$ 114,650
Securities purchased under agreements to resell	1,067,582	-	-	1,067,582
Investments	30,361,096	4,289,231	-	34,650,327
Loans	15,292,876	-	-	15,292,876
Total interest income	46,836,204	4,343,597	(54,366)	51,125,435
NON-INTEREST INCOME:				
Net realized and unrealized gains/(losses) on investments	(2,238,910)	4,720,074	-	2,481,164
Other income	468,570	10,000	(42,015)	436,555
Total noninterest income/(loss)	(1,770,340)	4,730,074	(42,015)	2,917,719
Total operating revenue	45,065,864	9,073,671	(96,381)	54,043,154
OPERATING EXPENSES:				
Provision for loan losses	10,960,000	-	-	10,960,000
INTEREST EXPENSE:				
Time deposits	3,700,831	-	(54,366)	3,646,465
Securities sold under agreements to repurchase	768,772	-	-	768,772
Promissory notes and other note payable	21,314,343	3,829,428	-	25,143,771
Total interest expense	25,783,946	3,829,428	(54,366)	29,559,008
NON-INTEREST EXPENSE:				
Salaries and employee benefits	8,525,594	27,876	-	8,553,470
Depreciation and amortization	361,885	-	-	361,885
Occupancy and related expenses	345,240	-	-	345,240
Professional fees	361,034	62,876	(42,015)	381,895
Advertising	263,550	-	-	263,550
Other	2,519,254	33	-	2,519,287
Total non-interest expenses	12,376,557	90,785	(42,015)	12,425,327
Total operating expenses	49,120,503	3,920,213	(96,381)	52,944,335
Operating income/(loss)	(4,054,639)	5,153,458	-	1,098,819
Capital contribution	4,816,018	-	-	4,816,018
Increase in net position	761,379	5,153,458	-	5,914,837
TOTAL NET POSITION, beginning of year	107,332,197	52,750,180	-	160,082,377
TOTAL NET POSITION, end of year	$108,093,576	$ 57,903,638	$ -	$165,997,214

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

	Operating Fund	Capital Investment	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash payments for goods and services	$ (3,429,214)	$ (69,270)	$ -	$ (3,498,484)
Cash payments to employees	(8,444,145)	-	-	(8,444,145)
Cash received from interest and principal on loans	139,481,764	-	-	139,481,764
Other payments	1,016,464	1,112,342	-	2,128,806
Cash disbursed for loaned amounts	(121,569,942)	-	-	(121,569,942)
Net cash provided by operating activities	7,054,927	1,043,072	-	8,097,999
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Net increase/(decrease) in:				
Time deposits	(199,554,745)	-	8,706	(199,546,039)
Securities sold under agreements to repurchase	(16,934,000)	-	-	(16,934,000)
Repayment of promissory notes	(29,216,771)	-	-	(29,216,771)
Interest paid on time deposits, securities sold under agreements to repurchase, and promissory notes	(23,515,295)	-	41,079	(23,474,216)
Net cash used in noncapital financing activities	(269,220,811)	-	49,785	(269,171,026)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital contribution	5,433,485	-	-	5,433,485
Acquisition of capital assets	(275,762)	-	-	(275,762)
Principal payment on capital debt	(528,924)	-	-	(528,924)
Interest paid on capital debt	(535,375)	-	-	(535,375)
Net cash provided by capital and related financing activities	4,093,424	-	-	4,093,424
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of investments	(7,424,999)	(1,142,857)	-	(8,567,856)
Principal repayments and maturities of investments	191,750,718	50,000	-	191,800,718
Net decrease/(increase) in:				
Interest-bearing deposits with other banks	(10,800,000)	8,706	(8,706)	(10,800,000)
Securities purchased under agreements to resell	55,727,000	-	-	55,727,000
Interest collected on investments, notes receivable, interest-bearing deposits with other banks, and commercial paper	27,290,024	41,079	(41,079)	27,290,024
Proceeds from sales of foreclosed assets	2,199,853	-	-	2,199,853
Net cash provided by/(used in) investing activities	258,742,596	(1,043,072)	(49,785)	257,649,739
Net increase in cash and due from banks	670,136	-	-	670,136
CASH AND DUE FROM BANKS, beginning of year	6,155,939	-	-	6,155,939
CASH AND DUE FROM BANKS, end of year	$ 6,826,075	$ -	$ -	$ 6,826,075

Continues

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2015

Continued

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	$ 3,554,509	$ (6,149,951)	$ -	$ (2,595,442)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	387,366	-	-	387,366
Net realized and unrealized loss on investments	2,153,079	6,128,872	-	8,281,951
Provision for loan losses	2,200,000	-	-	2,200,000
Provision for losses on foreclosed assets	1,400,000	-	-	1,400,000
Loss on sale of foreclosed assets	48,677	-	-	48,677
Interest income from investments	(25,677,820)	(41,191)	41,191	(25,677,820)
Decrease in accrued interest receivable from loans	457,836	-	-	457,836
Interest expense	22,819,806	-	(41,191)	22,778,615
Decrease in other assets	18,000	1,105,342	-	1,123,342
Decrease in loans receivable	431,886	-	-	431,886
Increase in other liabilities	(738,412)	-	-	(738,412)
Net cash provided by operating activities	$ 7,054,927	$ 1,043,072	$ -	$ 8,097,999
SUPPLEMENTAL CASH FLOW INFORMATION AND NON-CASH TRANSACTIONS:				
Decrease in fair value of investments	$ (1,846,338)	$ (6,128,872)	$ -	$ (7,975,210)
Transfers from loans to foreclosed real estate	$ 1,296,728	$ -	$ -	$ 1,296,728
Retirement of fully depreciated capital assets	$ 92,268	$ -	$ -	$ 92,268

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash payments for goods and services	$ (2,614,876)	$ (62,909)	$ -	$ (2,677,785)
Cash payments to employees	(8,322,868)	(37,253)	-	(8,360,121)
Cash received from interest and principal on loans	143,960,956	-	-	143,960,956
Other (receipts) payments	(366,257)	34,214	-	(332,043)
Cash disbursed for loaned amounts	(177,479,304)	-	-	(177,479,304)
Net cash used in operating activities	(44,822,349)	(65,948)	-	(44,888,297)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Net increase/(decrease) in:				
Time deposits	78,791,983	-	2,574,268	81,366,251
Securities sold under agreements to repurchase	(30,510,000)	-	-	(30,510,000)
Issuance of promissory notes	-	-	-	-
Repayment of promissory notes	(28,632,932)	(233,200,000)	-	(261,832,932)
Interest paid on time deposits, securities sold under agreements to repurchase, and promissory notes	(24,275,942)	(4,274,709)	54,290	(28,496,361)
Net cash used in noncapital financing activities	(4,626,891)	(237,474,709)	2,628,558	(239,473,042)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital contribution	4,816,018	-	-	4,816,018
Acquisition of capital assets	(283,282)	-	-	(283,282)
Principal payment on capital debt	(498,985)	-	-	(498,985)
Interest paid on capital debt	(565,314)	-	-	(565,314)
Net cash provided by capital and related financing activities	3,468,437	-	-	3,468,437
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of investments	(36,725,000)	(9,264,286)	-	(45,989,286)
Principal repayments and maturities of investments	106,886,998	239,388,406	-	346,275,404
Net decrease/(increase) in:				
Interest-bearing deposits with other banks	-	2,574,268	(2,574,268)	-
Securities purchased under agreements to resell	(55,727,000)	-	-	(55,727,000)
Interest collected on investments, notes receivable, interest-bearing deposits with other banks, and commercial paper	31,356,465	4,842,269	(54,290)	36,144,444
Proceeds from sales of foreclosed assets	779,097	-	-	779,097
Net cash provided by investing activities	46,570,560	237,540,657	(2,628,558)	281,482,659
Net increase in cash and due from banks	589,757	-	-	589,757
CASH AND DUE FROM BANKS, beginning of year	5,566,182	-	-	5,566,182
CASH AND DUE FROM BANKS, end of year	$ 6,155,939	$ -	$ -	$ 6,155,939

Continues

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

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ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014

Continues

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
RECONCILIATION OF OPERATING INCOME/(LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income/(loss)	$ (4,054,639)	$ 5,153,458	$ -	$ 1,098,819
Adjustments to reconcile operating income/(loss) to net cash used in operating activities:				
Depreciation and amortization	361,885	-	-	361,885
Net realized and unrealized/(gain) loss on investments	2,238,910	(4,672,074)	-	(2,433,164)
Provision for loan losses	10,960,000	-	-	10,960,000
Provision for losses on foreclosed assets	900,000	-	-	900,000
Provision for losses on loan guarantees	16,250	-	-	16,250
Loss on sale of foreclosed assets	172,693	-	-	172,693
Interest income from investments	(31,543,328)	(4,343,597)	54,366	(35,832,559)
Decrease in accrued interest receivable from loans	(340,919)	-	-	(340,919)
Interest expense	25,783,946	3,829,428	(54,366)	29,559,008
Increase in other assets	(981,315)	(23,787)	-	(1,005,102)
Increase in loans receivable	(48,470,304)	-	-	(48,470,304)
(Increase)/decrease in other liabilities	134,472	(9,376)	-	125,096
Net cash used in operating activities	$ (44,822,349)	$ (65,948)	$ -	$ (44,888,297)
SUPPLEMENTAL CASH FLOW INFORMATION AND NON-CASH TRANSACTIONS:				
Increase/(decrease) in fair value of investments	$ (2,043,999)	$ 1,672,074	$ -	$ (371,925)
Transfers from loans to foreclosed real estate	$ 696,959	$ -	$ -	$ 696,959
Retirement of fully depreciated capital assets	$ 42,706	$ -	$ -	$ 42,706

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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 non-interest income, and operating expenses between interest expense, provision for loan losses, and other non-interest 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.

In 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 ("GAAP") 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 was approved for new capital investments as deemed necessary in EDBCI investment activity. Also, EDBCI was authorized to invest in corporate paper as part of a new notes payable program like the one described in Note 9.

The accounting policies followed by the Bank are in accordance with 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

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of when received, and expenses are recognized when incurred, regardless of when paid. The following is a description of the most significant accounting policies:

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 capital assets; the valuation of capital assets and investments; and accruals for legal claims and other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

Basis of Presentation - The basic financial statements are presented in accrual basis of accounting.

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 position. 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.

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 position.

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

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

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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 to the Assets, Liabilities, and Investments Committee ("ALCO"), 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, including the effect of applicable put options as described in Note 9. 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 position. 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 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.

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. In accordance with the Bank's charge-off policy approved on February 2012, unsecured loans are charged off against the allowance for loans losses within 60 days after they have payments due over 120 days. For collateralized loans, charge-offs are recognized for the amount of collateral deficiency within 60 days after they have payments due over 180 days. Although one of the factors evaluated by management in making this assessment is the number of days past due, the policy also allows the Bank to charge-off loans when special circumstances arise and upon the approval of the corresponding level of authority. Recoveries of loans previously charged off are credited to the allowance for loan losses.

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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 non-accruing 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.

Collections received for nonaccrual loans are applied, for financial statement purposes, to principal owed. The change in payment application for nonaccrual loans is intended to reduce the recorded exposure to losses as well as the related required levels of the allowance for losses. Delinquency history and collection efforts are monitored in accordance to the full accrual amortization schedule of the loan.

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, 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.

For the year ended June 30, 2015, the Bank changed the method for calculating the reserve for loan losses by adjusting the resulting amount, calculated in a similar way as in prior years, to an amount that may not exceed the maximum amount of annual loans charge-off's recorded during the most recent three years. As a consequence the reserve for loan losses was reduced by $10.2 million, to a balance of $19.3 million. If the reserve for loan losses would have been calculated as in prior years, following GAAP, the balance would have been $29.5 million.

Management believes that due to the nature of the Bank, which is extremely unique in the U.S. scene, GAAP may have not considered such an operation at the moment of formulating its guidelines. Development banks are entities that have mainly risen in countries with high levels of poverty, where the direct impact of the governmental function by means of loans to the small and medium size entrepreneurs is vital to the creation of jobs and economic development. Management believes that full compliance with GAAP in this specific aspect, and especially in this historical moment, puts an unfair burden in the standing reflected in the Bank's basic financial statements.

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

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losses was allocated between current and noncurrent proportionally based on the loan classification.

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.

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.

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.

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 3 years for computer software, 5 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 as incurred.

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 position. The securities underlying these agreements are usually held by the broker or its agent, with whom the agreement is transacted.

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 position date. An additional amount is accrued for certain salary related benefits associated with the payment of compensated absences. Such amounts are included in other liabilities and the accompanying financial statements.

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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.

Deferral of Adoption of Accounting Pronouncements:

The Bank is required to adopt the provisions of GASB Statement No. 68 (GASB No. 68) "Accounting and Financial Reporting for Pension - an amendment of GASB 27", and GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68" (GASB No. 71). These statements were effective for fiscal years beginning after June 15, 2014. The primary objective of GASB No. 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

The adoption of GASB No. 68 requires the Bank to obtain, from the Commonwealth Employees' Retirement System Administration, technical information regarding actuarial valuations, discount rates, the Bank's proportionate share of the net pension liability, and deferred outflows and inflows of resources, among others. At the date of the financial statements, and in spite of several formal requests from Bank's management, the Puerto Rico Government Retirements System Administration did not provide the Bank with the required information. Therefore, the Bank was unable to adopt the dispositions of GASB No. 68.

At June 30, 2015 the Bank does not have the information available to implement the requirements of Statement No. 68 of the Governmental Accounting Standards Board. Accordingly, the Bank has not been able to determine and account for its proportionate share of net pension obligation, deferred inflow of resources and deferred outflow of resources related to pension costs and has not recognized the effect of current period changes in net pension obligation, deferred outflow of resources and deferred inflow of resources as these relate to pension costs. Recognition of these amounts would increase liabilities, increase deferred outflow of resources, increase deferred inflow of resources, increase the deficit, and change the pension expenses.

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Adoption of New Accounting Pronouncements:

Government Combinations and Disposals of Government Operations (GASB No. 69) - This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term *government combination* includes a variety of transactions referred to as mergers, acquisitions, and transfer of operations. The implementation of this Statement had no impact in the accompanying basic financial statements.

Accounting and Financial Reporting for Non-exchange Financial Guarantees (GASB No. 70) - The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive non-exchange financial guarantees. This Statement requires a governmental entity guarantor that offers a non-exchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The implementation of this Statement had no impact in the accompanying basic financial statements.

Recently Issued Accounting Pronouncements:

Fair Value Measurement and Application (GASB No. 72) - This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. (GASB No .73) - This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions,* as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans,* and Statement 68 for pension plans and pensions that are within their respective scopes.

This Statement also clarifies the application of certain provisions of Statements 67 and 68 with regard to the following issues:

- Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

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- Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
- Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (GASB No. 74) - This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Accounting and Financial Reporting for Postemployment Benefit Other Than Pension (GASB No. 75) - This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement is effective for fiscal years beginning after June 15, 2017.

The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB No. 76) - This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting

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principles ("GAAP"). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively.

***Tax Abatement* Disclosures (GASB No. 77)** - This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

Tax abatement agreements of other governments should be organized by the government that entered into the tax abatement agreement and the specific tax being abated. Governments may disclose information for individual tax abatement agreements of other governments within the specific tax being abated. For those tax abatement agreements, a reporting government should disclose:

- The names of the governments that entered into the agreements
- The specific taxes being abated
- The gross dollar amount of taxes abated during the period

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

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

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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, 2015 and 2014, 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:

	2015	
	Carrying Amount	Depository Bank Balance
Cash and due from banks	$ 6,826,075	$ 7,796,299
Interest-bearing deposits	10,800,000	10,800,000
	$ 17,626,075	$ 18,596,299

	2014	
	Carrying Amount	Depository Bank Balance
Cash and due from banks	$ 6,155,939	$ 8,288,724

As of June 30, 2015 and 2014, the total depository bank balance consisted of $17,252,775 and $4,061,657, respectively, which was insured or collateralized with securities held by the Department of the Treasury of the Commonwealth and $1,343,524 and $4,227,067, 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 for the year ended June 30, 2015 and 2014:

	2015	2014
Average amount outstanding during the year	$ 4,583,000	$ 1,444,238
Maximum amount outstanding at any month-end	$ 29,999,750	$ -
Weighted average interest rate for the year	0.32%	0.41%

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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:

	2015	2014
Carrying amount at June 30	$ -	$ 55,727,000
Average amount outstanding during the year	$ 29,428,000	$ 102,225,000
Maximum amount outstanding at any month-end	$ 64,150,000	$ 166,947,000
Weighted average interest rate for the year	1.32%	1.17%
Weighted average interest rate at year-end	0%	1.25%
Weighted average maturity (years)	0%	0.06%

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, 2014 was $82,015,000, none at June 30, 2015.

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3. INVESTMENTS

As of June 30, 2015 and 2014, the Bank had the following investments:

	June 30, 2015	
Investment Type	Fair Value	Weighted Average Maturity (Years)
Federal Home Loan Bank - MBS	$ 384,855	0.0
Federal National Mortgage Association - MBS - notes payable program	150,000,000	See below
Municipal bonds	12,080,000	0.5
Municipal bonds - notes payable program	242,528,158	See below
Collateralized mortgage obligations (residential)	33,030,286	1.3
Collateralized mortgage obligations - notes payable program (residential)	19,497,066	See below
External investment pools	31,439,797	N/A
Equity investments	10,833,236	N/A
Total fair value	$499,793,398	

	June 30, 2014	
Investment Type	Fair Value	Weighted Average Maturity (Years)
Federal Home Loan Bank - MBS	$ 676,865	1.0
Federal National Mortgage Association - MBS - notes payable program	150,000,000	See below
Municipal bonds	148,481,732	0.5
Municipal bonds - notes payable program	267,331,170	See below
Collateralized mortgage obligations (residential)	53,575,714	2.3
Collateralized mortgage obligations - notes payable program (residential)	23,933,681	See below
External investment pools	36,186,412	N/A
Equity investments	11,122,636	N/A
Total fair value	$691,308,210	

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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, 2015 and 2014, the investments which serve as collateral to the notes payable program have a weighted average maturity of 10.6 and 11.2 years, respectively.

In addition, investments in external investment pools and equity securities are not subject to the maximum maturity policy since they do not have 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, 2015, the Bank's investments in collateralized mortgage obligations were rated AA+ or A+ by Standard & Poor's, aa or A- by Moody's Investor Service and AAA or Baa1 by Fitch Ratings; the Bank's investment in Federal National Mortgage Association and Federal Home Loan Bank were rated AA+ by Standard & Poor's, Aaa by Moody's Investor Service and AA+ by Fitch Ratings; and the Bank's investment in municipal bonds were rated AAA, AA or CCC- by Standard & Poor's, Aaa, Aa1, A2, Ba1, Caa2 or Ca2 by Moody's Investor Service and AAA, AA+, A- or CC by Fitch Ratings.

As of June 30, 2014, the Bank's investments in collateralized mortgage obligations were rated AAA or AA+ by Standard & Poor's, Aaa, A3, Baa1 or Caa3 by Moody's Investor Service and AAA or D by Fitch Ratings; the Bank's investment in Federal National Mortgage Association and Federal Home Loan Bank were rated AA+ by Standard & Poor's, Aaa by Moody's Investor Service and AAA by Fitch Ratings; and the Bank's investment in municipal bonds were rated AAA, AA-, A+, BB+ or BB by Standard & Poor's and Aaa, Aa1, Aa3, A1, A2, Baa3, Ba2, B1, B2 or B3 by Moody's Investor Service.

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	Credit Risk Rating*			
Investment Type	AAA to BBB	BB to D	NR	Total
Federal Home Loan Bank - MBS	$ 384,855	$ -	$ -	$ 384,855
Federal National Mortgage Association - MBS - notes payable program	150,000,000	-	-	150,000,000
Municipal bonds	-	12,080,000	-	12,080,000
Municipal bonds - notes payable program	242,528,158	-	-	242,528,158
Collateralized mortgage obligations (residential)	33,030,286	-	-	33,030,286
Collateralized mortgage obligations - notes payable program (residential)	19,497,066	-	-	19,497,066
External investment pools	-	-	31,439,797	31,439,797
Equity investments	-	-	10,833,236	10,833,236
Total fair value	$ 445,440,365	$ 12,080,000	$ 42,273,033	$ 499,793,398

* Rating obtained from Standard & Poor's or equivalent rating by Moody's Investors Service or 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, 2015 and 2014, the venture capital balances comprised the following:

	2015	2014
External investment pools	$ 31,439,797	$ 36,186,412
Equity investments	15,704,000	15,754,000
	47,143,797	51,940,412
Allowance for losses in venture capital investments	(4,870,764)	(4,631,364)
Fair value of venture capital investments	$ 42,273,033	$ 47,309,048

The investment strategy of the external investment pools is to seek companies in or outside Puerto Rico that require capital growth or seed capital; although the investment recipients must have operations in Puerto Rico. The current investments on external equity investment pools are on different investment stages of their life cycle. Some of the funds continue evaluating new investment alternatives and others are in its sell-off stage.

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In accordance with the partnership agreements for each of the external investment pools, the Bank's investments can only be redeemed upon distribution from funds managers; usually in the form of a sale of its holdings or dividends distributed. The assets held by the funds in sell-off stage should be liquidated within the next three years; whereas the assets held by investment stage funds will take from seven to ten years for liquidation, as expected per its respective partnership agreements. As of June 30, 2015, the Bank does not intend to sell or redeem investments in any external investment pool for an amount different to that presented in the financial statements.

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, 2015 and 2014, 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, 2015 and 2014:

	2015	2014
Uninsured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	$457,520,365	$643,999,162
Uninsured and unregistered, with securities held by the Bank	42,273,033	47,309,048
Total	$499,793,398	$691,308,210

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, 2015, more than 5% of the Bank's investments are in Municipal Bonds (51%), Federal National Mortgage Association CMO's (31.5%) and other collateralized mortgage obligations (9.1%). As of June 30, 2014, more than 5% of the Bank's investments are in Municipal Bonds (60.2%) and Federal National Mortgage Association CMO's (23.2%).

Proceeds from sales, principal payments, and maturities of investments, including equity investments and gross realized gains or losses, for the years ended June 30, 2015 and 2014 are as follows:

	2015	2014
Proceeds from sales	$ 1,308,175	$ 15,175,087
Proceeds from principal payments and maturities	$ 190,492,542	$ 331,100,316
Gross gains	$ -	$ 3,273,354

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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, 2015 and 2014, the Bank has made no payments under the loan guarantee program.

Loans distribution among industry sectors as of June 30, 2015 and 2014 are as follows:

	2015	2014
Agricultural	$ 33,933,709	$ 32,079,461
Commercial	76,412,666	84,225,635
Services	144,190,593	157,473,817
Manufacturing	38,930,154	40,587,740
Tourism	32,287,433	30,241,401
Total loans	325,754,555	344,608,054
Allowance for loan losses	(19,303,658)	(34,021,543)
	$ 306,450,897	$ 310,586,511

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 collectability of principal is doubtful, the interest portion may be applied to principal.

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At June 30, 2015 and 2014, loan delinquency by industry sector was a follows:

	2015				
	0 - 29 Days	30 - 59 Days	60 - 89 Days	90+ Days	Outstanding Balance
Agricultural	$ 25,925,374	$ 671,198	$ 122,454	$ 7,214,683	$ 33,933,709
Commercial	64,645,705	1,865,293	2,816,791	7,084,877	76,412,666
Services	123,903,617	3,273,376	1,638,903	15,374,697	144,190,593
Manufacturing	33,264,493	111,215	-	5,554,446	38,930,154
Tourism	27,925,658	-	-	4,361,775	32,287,433
Total	$ 275,664,847	$ 5,921,082	$ 4,578,148	$ 39,590,478	$ 325,754,555

	2014				
	0 - 29 Days	30 - 59 Days	60 - 89 Days	90+ Days	Outstanding Balance
Agricultural	$ 18,418,065	$ 763,077	$ 937,719	$ 11,960,600	$ 32,079,461
Commercial	64,335,515	4,877,180	384,144	14,628,796	84,225,635
Services	138,274,198	4,364,710	1,230,549	13,604,360	157,473,817
Manufacturing	32,796,620	411,772	16,604	7,362,744	40,587,740
Tourism	26,367,347	-	-	3,874,054	30,241,401
Total	$ 280,191,745	$ 10,416,739	$ 2,569,016	$ 51,430,554	$ 344,608,054

The following is a summary of information on loans considered to be impaired in accordance with ASC subtopic 310-35-35 Receivables, previously, FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan,* as of June 30, 2015 and 2014 and the related interest income for the years then ended:

	2015	2014
Recorded investment in impaired loans not requiring an allowance for loan losses	$ 82,622,000	$ 54,470,000
Recorded investment in impaired loans requiring an allowance for loan losses	30,603,000	42,285,000
Total recorded investment in impaired loans	$ 113,225,000	$ 96,755,000
Related valuation allowance	$ 7,332,000	$ 13,637,000
Average recorded investment in impaired loans	$ 98,900,000	$ 86,500,000
Interest income recognized	$ 2,011,000	$ 1,007,000

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At June 30, 2015 and 2014, 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 $120,409,716 ($39,575,708 over 89 days and $80,834,008 restructured loans) and $131,420,175 ($51,371,855 over 89 days and $80,048,320 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 $9,460,000 and $9,810,000 as of June 30, 2015 and 2014, respectively.

The balance of nonaccrual loans by industry sector at June 30, 2015 and 2014, were as follows:

	2015	2014
Agricultural	$ 14,337,361	$ 20,201,902
Commercial	34,325,220	33,446,678
Services	38,513,436	45,644,723
Manufacturing	23,680,921	19,043,361
Tourism	9,552,778	13,083,511
Total	$ 120,409,716	$ 131,420,175

The balance of loans classified as troubled debt restructured by industry sector and the related effect in the allowance for loan losses at June 30, 2015 and 2014 is as follows:

	2015		2014	
	Principal	Allowance	Principal	Allowance
Agricultural	$ 14,567,816	$ 634,599	$ 21,548,733	$ 2,202,794
Commercial	24,451,547	1,220,127	21,264,379	5,889,212
Services	31,154,552	3,793,742	35,769,369	4,847,679
Manufacturing	10,025,425	112,912	8,019,210	1,064,635
Tourism	9,537,027	564,246	10,458,808	333,521
Total	$ 89,736,367	$ 6,325,626	$ 97,060,499	$ 14,337,841

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The following tables present the troubled debt restructuring modified during the years ended June 30, 2015 and 2014:

	2015		2014	
	Premodification	Postmodification	Premodification	Postmodification
Outstanding recorded investment	$ 20,005,396	$ 20,004,654	$ 26,371,593	$ 26,396,303
Number of contracts	22	22	100	100
Weighted average rate	7.60%	7.61%	5.87%	5.56%
Weighted average term (months)	71	81	71	95

Of the total troubled debt restructurings during 2015 and 2014, 1 contract with a balance at June 30, 2015 of $118,558 and 17 contracts with a balance at June 30, 2014 of $3,682,000, defaulted after their modifications were processed.

At June 30, 2015 and 2014, commitments to extend credit on troubled debt restructured loans amounted to $1,433,000 and $403,000, respectively.

Changes in the total allowance for loan losses for the years ended June 30, 2015 and 2014 were as follows:

	2015	2014
BALANCE, beginning of year	$ 34,021,543	$ 35,734,173
Provision charged to operations	2,200,000	10,960,000
Loans charged off as uncollectible	(19,229,806)	(14,941,246)
Recoveries	2,311,921	2,268,616
BALANCE, end of year	$ 19,303,658	$ 34,021,543

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The following table presents the changes and the balance in the allowance for loan losses and the recorded investment in gross loans by industry sector and based on impairment method for the year ended June 30, 2015 and 2014:

	2015					
	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 2,924,049	$ 10,265,474	$ 15,404,115	$ 3,598,932	$ 1,828,973	$ 34,021,543
Provision charged to operations	119,929	(907,153)	332,349	2,380,196	274,679	2,200,000
Loans charged-off as uncollectible	(1,769,230)	(5,938,761)	(6,277,584)	(4,678,976)	(565,255)	(19,229,806)
Recoveries	126,765	1,063,528	585,783	314,772	221,073	2,311,921
Ending balance	$ 1,401,513	$ 4,483,088	$ 10,044,663	$ 1,614,924	$ 1,759,470	$ 19,303,658
Ending allowance attributable to loans:						
Individually evaluated for impairment	$ 435,500	$ 1,735,752	$ 3,853,155	$ 846,347	$ 460,898	$ 7,331,652
Collectively evaluated for impairment	966,013	2,747,336	6,191,508	768,577	1,298,572	11,972,006
Ending allowance	$ 1,401,513	$ 4,483,088	$ 10,044,663	$ 1,614,924	$ 1,759,470	$ 19,303,658
Loans:						
Individually evaluated for impairment	$ 18,595,331	$ 30,086,520	$ 33,056,554	$ 23,271,751	$ 8,214,619	$ 113,224,775
Collectively evaluated for impairment	15,338,378	46,326,146	111,134,039	15,658,403	24,072,814	212,529,780
Total loan balance	$ 33,933,709	$ 76,412,666	$ 144,190,593	$ 38,930,154	$ 32,287,433	$ 325,754,555

	2014					
	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 2,061,237	$ 12,305,535	$ 15,746,072	$ 2,537,066	$ 3,084,263	$ 35,734,173
Provision charged to operations	820,734	4,228,979	3,673,024	1,368,295	868,968	10,960,000
Loans charged-off as uncollectible	(416,801)	(6,629,048)	(4,731,192)	(1,033,096)	(2,131,109)	(14,941,246)
Recoveries	458,879	360,008	716,211	726,667	6,851	2,268,616
Ending balance	$ 2,924,049	$ 10,265,474	$ 15,404,115	$ 3,598,932	$ 1,828,973	$ 34,021,543
Ending allowance attributable to loans:						
Individually evaluated for impairment	$ 2,094,044	$ 5,563,223	$ 4,638,304	$ 1,110,531	$ 230,822	$ 13,636,924
Collectively evaluated for impairment	830,005	4,702,251	10,765,811	2,488,401	1,598,151	20,384,619
Ending allowance	$ 2,924,049	$ 10,265,474	$ 15,404,115	$ 3,598,932	$ 1,828,973	$ 34,021,543
Loans:						
Individually evaluated for impairment	$ 19,812,499	$ 29,337,759	$ 29,612,685	$ 8,920,341	$ 9,072,108	$ 96,755,392
Collectively evaluated for impairment	12,266,962	54,887,876	127,861,132	31,667,399	21,169,293	247,852,662
Total loan balance	$ 32,079,461	$ 84,225,635	$ 157,473,817	$ 40,587,740	$ 30,241,401	$ 344,608,054

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5. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2015 and 2014 was as follows:

	2015			
	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	$ -	$ -	$ 2,735,000
Building and improvements	11,503,087	86,419	-	11,589,506
Furniture and equipment	5,024,804	213,833	(116,759)	5,121,878
Total cost	19,262,891	300,252	(116,759)	19,446,384
Less accumulated depreciation and amortization:				
Building and improvements	(5,616,517)	(302,890)	-	(5,919,407)
Furniture and equipment	(4,832,956)	(84,477)	92,268	(4,825,165)
Total accumulated depreciation depreciation and amortization	(10,449,473)	(387,367)	92,268	(10,744,572)
Capital assets, net	$ 8,813,418	$ (87,115)	$ (24,491)	$ 8,701,812

	2014			
	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	$ -	$ -	$ 2,735,000
Building and improvements	11,340,844	162,243	-	11,503,087
Furniture and equipment	4,946,471	121,039	(42,705)	5,024,805
Total cost	19,022,315	283,282	(42,705)	19,262,892
Less accumulated depreciation and amortization:				
Building and improvements	(5,324,544)	(291,973)	-	(5,616,517)
Furniture and equipment	(4,805,750)	(69,912)	42,705	(4,832,957)
Total accumulated depreciation depreciation and amortization	(10,130,294)	(361,885)	42,705	(10,449,474)
Capital assets, net	$ 8,892,021	$ (78,603)	$ -	$ 8,813,418

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, 2016 and 2017 are approximately $375,000 and $148,000, respectively.

Rent revenue amounting to approximately $372,000 and $304,000 was recorded as other income in the accompanying 2015 and 2014 statements of revenue, expenses, and changes in net position, respectively.

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6. OTHER ASSETS

Other assets as of June 30, 2015 and 2014 consist of the following:

	2015	2014
Other real estate owned, net of allowance for losses of $3,162,928 in 2015 and $5,935,941 in 2014	$ 4,847,033	$ 6,991,835
Deferred issuance costs	99,064	108,073
Accounts receivable from other Commonwealth component units	84,266	775,826
Other	46,204	468,975
Total	$ 5,076,567	$ 8,344,709

7. TIME DEPOSITS

Time deposits of $212,137,906 and $411,683,945 at June 30, 2015 and 2014, respectively, 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, 2015 and 2014 amounted to approximately $200,830,000 and $390,330,000, respectively.

Time deposits in denominations of $100,000 or more amounted to approximately $211,822,000 and $411,540,000 at June 30, 2015 and 2014, 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:

	2015	2014
Carrying amount at June 30	$ 28,756,000	$ 45,690,000
Average amount outstanding during the year	$ 35,330,000	$ 59,824,000
Maximum amount outstanding at any month-end	$ 40,800,000	$ 75,750,000
Weighted average interest rate for the year	0.44%	1.07%
Weighted average interest rate at year-end	0.57%	0.35%

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Securities sold under agreements to repurchase represent borrowings with maturities ranging from 14 to 71 days at June 30, 2015 and from 10 to 71 days at June 30, 2014.

As of June 30, 2015 and 2014, securities sold under agreements to repurchase were collateralized with mortgage-backed securities, other governmental agencies securities, and other investments with a market value of $31,144,000 and $50,099,000, respectively.

The activity for securities sold under agreements to repurchase during 2015 and 2014 was as follows:

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Securities sold under agreement to repurchase	$ 45,690,000	$ 182,241,000	$ (199,175,000)	$ 28,756,000	$ 28,756,000

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Securities sold under agreement to repurchase	$ 76,200,000	$ 248,690,000	$ (279,200,000)	$ 45,690,000	$ 45,690,000

9. PROMISSORY NOTES AND OTHER NOTE PAYABLE

Promissory notes and other note payable at June 30, 2015 and 2014 are summarized as follows:

	2015	2014
Promissory notes	$ 411,997,916	$ 441,214,688
Other note payable	8,393,996	8,922,920
Total	$ 420,391,912	$ 450,137,608

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 put options held by the Bank and by the creditor. The put options of the Bank grant the Bank the exercisable right, at the Bank's sole discretion, to require the noteholder to purchase, on established exercise dates, the

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collateral of this note at a price equal to the amortized cost of the promissory notes, as defined. The put option held by the noteholders permits them, on the same established dates of the Bank's put option, to require the Bank to redeem the promissory notes at their outstanding amortized cost. 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 options.

At June 30, 2015 and 2014, the aggregate principal balance of promissory notes outstanding under these programs amounted to $412 million and $441 million, respectively. These notes pay interest semiannually, bear interest rates at June 30, 2015 ranging from 1.83% to 7.23%, and mature at various dates through September 27, 2032. These promissory notes are collateralized with investment securities with an aggregate fair value of $453,242,000, excluding the value of their corresponding put options.

The other note payable is due to the Government Development Bank of Puerto Rico ("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, 2015 and 2014 was as follows:

	2015				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Promissory notes	$ 441,214,688	$ -	$ (29,216,772)	$ 411,997,916	$ 6,676,666
Other note payable	8,922,920	-	(528,924)	8,393,996	560,660
Total promissory notes and other note payable	$ 450,137,608	$ -	$ (29,745,696)	$ 420,391,912	$ 7,237,326

	2014				
	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Promissory notes	$ 703,047,620	$ -	$ (261,832,932)	$ 441,214,688	$ -
Other note payable	9,421,905	-	(498,985)	8,922,920	528,924
Total promissory notes and other note payable	$ 712,469,525	$ -	$ (262,331,917)	$ 450,137,608	$ 528,924

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

	Principal	Interest
Years ending June 30:		
2016	$ 7,237,326	$ 19,517,860
2017	594,299	19,445,045
2018	629,957	19,409,209
2019	667,755	19,371,223
2020	707,820	19,330,957
2021 - 2025	259,550,699	51,579,687
2026 - 2030	1,004,056	23,305,223
2031 - 2035	150,000,000	10,449,583
Total	$ 420,391,912	$ 182,408,787

10. OTHER LIABILITIES

The activity for the other noncurrent liabilities during 2015 and 2014 was as follows:

	2015			
	Beginning Balance	Provision	Reductions	Ending Balance
Compensated absences	$ 2,049,589	$ 330,000	$ (566,828)	$ 1,812,761
Legal claims	667,722	-	(45,333)	622,389
Reserve for loan guarantees	3,624,170	-	(6,839)	3,617,331
Total	$ 6,341,481	$ 330,000	$ (619,000)	$ 6,052,481

	2014			
	Beginning Balance	Provision	Reductions	Ending Balance
Compensated absences	$ 2,013,212	$ 320,000	$ (283,623)	$ 2,049,589
Legal claims	667,722	-	-	667,722
Reserve for loan guarantees	3,641,970	-	(17,800)	3,624,170
Total	$ 6,322,904	$ 320,000	$ (301,423)	$ 6,341,481

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11. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2015 and 2014 are composed of the following:

	2015	2014
Invested in capital assets, net of related debt:		
Capital assets	$ 19,446,384	$ 19,262,892
Accumulated depreciation and amortization	(10,744,572)	(10,449,474)
Related GDB note payable	(8,393,996)	(8,922,920)
Total	$ 307,816	$ (109,502)

	2015	2014
Restricted for special loan programs:		
Economic Development Administration	$ 3,827,649	$ 3,587,156
Day Care Centers Loan Fund	4,762,532	4,660,894
State Small Business Credit Initiative	15,247,264	9,828,706
Total	$ 23,837,445	$ 18,076,756

The Bank is a recipient of two grants from the Economic Development Administration Directive System ("EDA"), subscribed by 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, 2015 and 2014, the outstanding principal of loans granted under the terms of EDA Revolving Loan Fund amounted to $3,721,459 and $3,126,828, respectively, and are included in loans, net in the accompanying statements of net position. 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.

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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, 2015 and 2014, the outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund amounted to $2,225,304 and $2,499,464, respectively, and are included in loans, net in the accompanying statements of net position.

In September 2011, the Bank was approved an allocation of $14.5 million from the U.S. Department of the Treasury ("Treasury") under the State Small Business Credit Initiative Act of 2010, Title 3 of the Small Business Jobs Act of 2010 ("SSBCI"), by which the United States Congress appropriated funds to Treasury to be allocated and disbursed to States and Territories that have created programs to increase the amount of capital made available by private lenders to small businesses. To accomplish this Puerto Rico will use $12.5 million of its allocated SSBCI funds to support the existing Loan Participation Program and $2 million to support the existing Venture Capital Program. As of June 30, 2015 the Bank has received $14.5 million of the total allocation, which was recorded as a capital contribution, and has committed $13.5 million under the Loan Participation Program and $1 million under the Venture Capital Program.

Net position restricted for the special loans programs as of June 30, 2015 and 2014 consist of the following:

	2015	2014
Cash and due from banks	$ 8,857,038	$ 7,457,754
Venture capital investment	1,000,000	1,000,000
Loans and interest receivable, net of allowance for loan losses of $530,605 and $943,196 in 2015 and 2014, respectively	14,124,977	9,604,267
Other assets	677,270	173,962
Total restricted assets	24,659,285	18,235,983
Accounts payable and other liabilities	821,840	159,227
Total restricted net assets	$ 23,837,445	$ 18,076,756

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 $2.8 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. During the fiscal year ended June

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30, 2015, these fund programs had made no payments to the Bank for loans guaranteed; therefore, these loans are not included in the accompanying statements of net position.

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, 2015 and 2014, the outstanding principal of loans granted under all the Economic Development and Commerce Department loans and loan guarantee programs amounted to $2,582,780 and $3,653,198, respectively, of which $2,544,281 and $3,059,171, respectively, are included in loans, net in the accompanying statements of net position, 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, 2015 and 2014, the outstanding principal of loans granted under this fund amounted to $6,199,906 and $6,684,778, respectively, and are included in loans, net in the accompanying statements of net position.

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, 2015 and 2014, the outstanding principal of all loans granted under the Agricultural Guarantee Loan Fund program amounted to $4,765,498 and $7,461,178, respectively, of which $4,733,322 and $5,128,560, respectively, are included in loans, net in the accompanying statements of net position, 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, 2015 and 2014, the outstanding principal of loans granted under the program amounted to $224,639 and $631,766, respectively, of which $224,639 and $258,349, respectively, are included in loans, net in the accompanying statements of net position, while the remaining balance had been paid to the Bank by the fund.

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The financial statements of these funds are audited by other independent auditors whose reports thereon for the year ended June 30, 2014, dated April 30, 2015, express an unqualified opinion. Audit of these funds for the year ended June 30, 2015 has not been completed as of issuance date of the Bank's basic financial statements. These funds are not included within the Bank's basic 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, 2015 and 2014, there was no pending or threatened litigation under such programs.

13. COMMITMENTS AND CONTINGENCIES

Litigation

At June 30, 2015, 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.

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 GDB, 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, 2015 and 2014, the outstanding guaranteed principal of loans granted under the program amounted to $3,050,000.

At June 30, 2015 and 2014, total outstanding loan guarantees, including guarantees under the new program mentioned above, amounted to approximately $3,186,000 and $3,201,000, respectively. The Bank has recorded a reserve for loan guarantees amounting to approximately $1,915,000 and $1,922,000 at June 30, 2015 and 2014, respectively, which is included in other current liabilities in the accompanying statements of net position. During 2011, the Bank received $10 million from the GDB to cover any losses that may arise from the operation of the Loan Guarantees Program described above. This amount was recorded in the reserve for loan guarantees under noncurrent other liabilities in the accompanying financial statements. See Note 19 on related-party transactions.

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From the reserve for loan guarantees, which as of June 30, 2015 has a balance of $3,617,000, the Bank reassigned during 2011 $5 million for disbursements of loans under the "Desarrollo para el Pueblo" program and $2 million for disbursements of loans under the "Vieques y Culebra" program. Up to June 30, 2015, $5.5 million have been disbursed for the two programs, leaving $1.5 million in the reserve for this purpose. In addition, the reserve for loan guarantees includes $1.9 million to cover the $3.1 million in guarantees outstanding as of June 30, 2015. See also Note 19.

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. 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.

15. RETIREMENT PLANS

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 ERS 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 non-occupational disabilities. However, a member must have at least 10 years of service to receive non-occupational disability benefits. Retirement benefits depend upon age at retirement and number of years of creditable service. Benefits vest after 10 years of plan participation.

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Defined Contribution Plan

The Legislature of the Commonwealth enacted Act No. 305 of 2000, 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.

New Defined Contribution Hybrid Program

In April 2013, the Legislature of the Commonwealth enacted Act No. 3, which amends Acts No. 447 of 1951 and 305 of 2000, to establish, among other things, the creation of a new defined contribution hybrid program and amend the terms and conditions of the benefits structure granted to active participants and pensioners under the previously established benefit structures administered by the ERS.

The Hybrid Program became effective on July 1, 2013. Employees participating in the System as of June 30, 2014 retained their rights to receive the benefits earned under the previous program based on the accumulated salaries and years of service up to June 30, 2014. All employees of the government on or after July 1, 2013 became members of the Hybrid Program.

The Hybrid Program is a defined contribution 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 10% of the employees' salary and no maximum amount, limited by annual increments of up to 0.5% of the monthly gross salary), which will be invested in one of three investment options.

Pension benefits are defined as of June 30, 2013 based on each the member status. Members who entered the ERS before April 1, 1990 and who have attained 58 years of age and at least 10 years of creditable service, or members who have attained 55 years of age and at least 25 years of creditable service, are entitled to a deferred pension plus the benefits of the new defined contribution hybrid program annuity. Members who have attained 57 years and at least 10 years of creditable service will be eligible for benefits once they have 59 years. Members who have attained 56 years and at least 10 years of creditable service will be eligible for benefits once they have 60 years. Members who have not attained 56 years and have completed at least 10 years of creditable service will be eligible for benefits once they have 61 years.

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Members entering the ERS on or after April 1, 1990 but before December 31, 1999 and who have attained 65 years are entitled to a deferred pension plus the benefits of the new defined contribution hybrid program annuity.

Members entering the ERS after January 1, 2000 and who have attained 59 years as of June 30, 2013 are entitled defined contribution program annuity. Members who have attained 58 years as of June 30, 2013 are entitled defined contribution program annuity once they have attained 62 years. Members who have attained 57 years as of June 30, 2013 are entitled defined contribution program annuity once they have attained 63 years. Members who have attained 56 years as of June 30, 2013 are entitled defined contribution program annuity once they have attained 64 years. Members who have attained 55 years or less as of June 30, 2013 are entitled defined contribution program annuity once they have attained 65 years.

The Bank's required contribution is 13.275% of the employees' salary. Contribution rates are established commonwealth wide for all participating governmental units. Accordingly, the actuarial information and related disclosures attributable to the Bank's employees are not determinable.

Total employee contributions during the years ended June 30, 2015 and 2014 to the above plans amounted to approximately $559,000 and $556,000, respectively. Total payroll covered for the years ended June 30, 2015 and 2014 was approximately $5,610,000 and $5,610,000, respectively.

The Bank's contributions during the years ended June 30, 2015 and 2014 to the above plans amounted to $745,000 and $689,000, 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, 2015. 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.

16. 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 position. 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

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other off-balance-sheet risks express the dollar volume of the transactions, but the credit risk might be lower.

At June 30, 2015 and 2014, the off-balance-sheet risks consisted of the following:

	2015	2014
Financial instruments whose credit is represented by contractual amounts:		
Financial guarantees	$ 3,186	$ 3,201
Commitments to extend credit	$ 23,619	$ 23,935
Commitments to invest in venture capital	$ 5,861	$ 7,004

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.

17. OTHER NON-INTEREST INCOME

Other non-interest income for the years ended June 30, 2015 and 2014 consists of the following:

	2015	2014
Rental income (note 5)	$ 372,175	$ 303,831
Loss on sale of foreclosed assets	(48,677)	(172,693)
Administrative fees - other funds	-	42,033
Recoveries from loan guarantees	79,669	30,800
Miscellaneous income	540,914	232,584
Total	$ 944,081	$ 436,555

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18. OTHER NON-INTEREST EXPENSES

Other non-interest expenses for the years ended June 30, 2015 and 2014 consist of the following:

	2015	2014
Electricity	$ 497,906	$ 467,807
Insurance	177,295	199,092
Repairs and maintenance	219,073	204,933
Telephone	39,417	40,350
Employees trainings and seminars	20,865	10,596
Office supplies	42,735	52,872
Reimbursement of expenses to employees	41,038	49,218
Dues and subscriptions	62,089	63,654
Investment operations	16,586	28,695
Vehicles	11,352	18,633
Postage	22,127	25,723
Official meetings	13,895	5,308
Contribution to General Fund	417,629	-
Miscellaneous	516,784	436,156
Subtotal	2,098,791	1,603,037
Provision for losses on loan guarantees	-	16,250
Provision for losses on foreclosed assets	1,400,000	900,000
Total	$ 3,498,791	$ 2,519,287

19. RELATED-PARTY TRANSACTIONS

On February 1, 2010, the Governor of Puerto Rico issued Executive Order OE-2010-005, which reassigned funds remaining from the local economic stimulus plan approved under Law No. 9 of the Commonwealth in March 9, 2009. In accordance with this order, the Bank received from GDB $41,250,000 to implement a program designed to promote the economic capacity of small- and medium-size enterprises. Of this total, the Bank recorded $30 million as a capital contribution aimed to generate new direct loans, $10 million as a reserve for possible losses from the Loan Guarantee Program created by the abovementioned Law No. 9, and $1,250,000 as an accrual for expenses related to a government wide effort to promote economic development of the small- and medium-size enterprise sector.

As mentioned in Note 13 above, during 2011 $7 million from the reserve for possible losses from the Loan Guarantee Program were reassigned for the disbursement of loans under the "Desarrollo para el Pueblo" and "Vieques y Culebra" programs. Accordingly,

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$1,500 were disbursed under these programs during 2014, none during 2015, and reclassified from the reserve account to capital contribution. In addition, during 2015 and 2014 the Bank disbursed $6,840 and $16,250, respectively, to pay loan guarantees to commercial banks under the Loan Guarantee Program created by the abovementioned Law No. 9. Finally, during 2015 the Bank received $483,000 from the local State Office for Public Policy on Energy for the disbursement of loans under the "Green Loans" program, which were also recorded as capital contribution.

20. MITIGANTS TO GOING CONCERN ISSUE AND LIQUIDITY LEVELS

As discussed in Note 1 of the basic financial statements, the Bank's deposits are mostly derived from government agencies from the Commonwealth of Puerto Rico (the "Commonwealth"). The Commonwealth's liquidity was significantly affected during fiscal year 2015 and remains considerably limited, primarily, as a result of the Commonwealth's inability to access external sources of financial credit. Further deterioration in the Commonwealth's financial condition could have an adverse effect in the Bank's ability to continue its operations.

Nevertheless, the Bank continues to diligently manage its cash position, fueled solely by funds generated from its loan operations. Loan repayments of principal and interest are prudently recycled into new loans and are enough to cover the costs of the Bank's operation. The Bank does not receive nor require recurrent assignments of funds from the Puerto Rico's Legislature or from other governmental entities to continue its operation.

The Bank maintains a positive capital structure that has been accumulated during its 30 years of existence. This capital reflects the value of the operation and its ability to generate business income while controlling operating expenses.

21. SUBSEQUENT EVENTS

The Bank evaluated subsequent events through April 7, 2016, the date on which the financial statements were available to be issued. There were no material subsequent events that would require further disclosure, other than the matter described below.

On April 6, 2016, the Commonwealth of Puerto Rico ("Commonwealth") approved Act 21, "Puerto Rico Emergency Moratorium and Financial Rehabilitation" ("Act 21"). Act 21 has four primary objectives:

Authorizes the Governor to declare a moratorium on debt service payments for a temporary period for the Commonwealth, Government Development Bank ("GDB"), the Bank, or any of the remaining government instrumentalities of Puerto Rico, stay creditor remedies that may result from the moratorium.

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Amends GDB's Enabling Act. Amendment consists of an updated receivership provisions, bridge bank provisions and related procedures that are intended to provide an alternative to GDB's liquidation and resolution under existing law.

Amends the Bank's enabling Act and replaces the outdated receivership provisions by modifying the process for the appointment of a receiver, clarifying the receiver's powers, and establishing priority of expenses and unsecured claims in a receivership.

Creates the Fiscal Agency and Financial Authority (the "Authority") and it will be structured as an independent public corporation and public instrumentality of the Commonwealth with a board of directors composed of one appointed by the Governor. The Authority is created for the purpose of acting as fiscal agent, financial advisor and reporting agent of the Commonwealth and its public corporations, instrumentalities, commissions, authorities, municipalities and political subdivisions and to assist such entities in confronting the grave fiscal and economic emergency that the Commonwealth is currently experiencing. The Authority will also oversee all matters related to the restructuring or adjustment of any covered obligation, or otherwise coordinate and implement liability management transactions for any covered obligation.

Act 21 provisions authorize the Governor to declare moratoriums that go into effect immediately upon its enactment, and they generally expire on January 31, 2017. The moratorium provisions classify various Puerto Rico entities including the Commonwealth itself into the following two categories because Act 21 treats the creditors thereof slightly differently: the GDB, the Bank, and government entities which include the Commonwealth itself and the remaining government entities and public corporations with significant indebtedness.

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