Economic Development Bank for Puerto Rico

(A Component Unit of the Commonwealth of Puerto Rico)

Basic Financial Statements for the Years Ended June 30, 2017 and 2016, Single Audit of Federal Financial Assistance and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Economic Development Bank for Puerto Rico
San Juan, Puerto Rico

REPORT ON THE 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, 2017, and the related notes to basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE 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 misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions 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 we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

UNMODIFIED OPINION

In our opinion, the 2017 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, 2017, 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.

EMPHASIS OF MATTERS

Going Concern

The accompanying financial statements have been prepared assuming that the Bank will continue as going concern. As discussed in Note 3 to the financial statements as of June 30, 2017, and subsequently, the financial condition and liquidity of the Bank and Commonwealth have deteriorated. Also, as discussed in Note 3, the Bank has stated that substantial doubt exists about its ability to continue as going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

LLAVONA CASAS CPA-PSC
Tus socios para el éxito

INDEPENDENT AUDITORS' REPORT (CONTINUED)

OTHER MATTERS

Required Supplementary information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis in pages 5 to 10 and the schedule in page 57 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.

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, in pages 58-59, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

Other reporting required by Governmental auditing standards

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2019, on our consideration of the Bank's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Bank's internal control over financial reporting and compliance.

PRIOR YEAR BASIC FINANCIAL STATEMENTS

The basic financial statements of the Bank as of June 30, 2016, were audited by other auditors whom report dated December 15, 2016, expressed a qualified opinion on those basic financial statements.

San Juan, Puerto Rico
January 11, 2019

Llavona Casas, CPA PSC

Stamp No. E-3545238
was affixed to the original.

LLAVONA - CASAS, CPA PSC
License Number 226
Expires on December 1, 2021

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, 2017, and 2016, 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 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 like 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 (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

- Total assets decreased $128.5 million or 38%, from $338.3 million in 2016 to $209.8 million in 2017.
- Operating loss amounted to $112.5 million in 2017, a $97.6 million or approximately 656.3% increase from $14.9 million operating loss in 2016.
- Interest income from loans amounted to $11.8 million in 2017, a decrease of $4.8 million or approximately 28.7% from $16.6 million in 2016.
- Net position decreased $145.2 million in 2017 or 94.3%, from $154 million in 2016 to $8.7 million in 2017.

Comparison of 2017 and 2016 Assets, Liabilities, and Net Position

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

			Increase/(decrease)	
Net Position	**2017**	**2016**	**Amount**	**Percentage**
Assets:				
Current assets	$ 94,734	$ 128,184	$ (33,450)	-26%
Noncurrent assets	115,023	210,086	(95,063)	-45%
Deferred outflows of resources	11,033	-	11,033	N/A
Total assets and deferred outflows of resources - Pension related	220,790	338,271	(117,481)	-35%
Liabilities:				
Current Liabilities	149,427	171,284	(21,857)	-13%
Noncurent Liabilities	61,756	12,999	48,757	375%
Deferred inflow of resources	858	-	858	N/A
Total Liabilities and deferred inflows of resources - Pension related	212,041	184,283	27,758	15%
Net Position:				
Invested in Capital Asset, net of related debt	1,113	614	499	81%
Restricted for special loan programs	8,413	24,727	(16,313)	-66%
Unrestricted	(777)	128,647	(129,424)	-101%
Net Position	$ 8,749	$ 153,988	$ (145,239)	-94%

At June 30, 2017, the Bank's total assets and deferred outflows of resources were $220.8 million ($39.7 million from EDBCI) compared to $338.3 million at June 30, 2016 ($46.7 million from EDBCI). The decrease of $117.5 million represents 35% of the 2016 total assets balance.

Total loan portfolio decreased by 34.63% when compared to balances as of June 30, 2016. Loan disbursements decreased from $96.8 million in 2016 to $33.6 million in 2017, while principal collected on loans decreased from $137.3 million for fiscal year 2016 to $90 million for fiscal year 2017. The related allowance for loan losses increased by $58.3 million or 302.8% of the 2016 balance. The net loan portfolio decreased by $152.4 million.

At June 30, 2017, the Bank's total liabilities and deferred inflows of resources were $212 million compared to $184.3 million at June 30, 2016. The increase of $27.8 million represents 15.1% of the 2016 total liabilities.

Total time deposits were $145.2 million as of June 30, 2017. Time deposits consist primarily of certificates of deposit of public funds from other governmental institutions, which totaled $143.8 million. Deposits from other financial institutions were $1.4 million. Total time deposits decreased by $22.2 million. As of year-end, the total promissory notes and other note payable balance was $7.2 million.

The Bank had net position of $8.7 million at June 30, 2017, a decrease of $145.2 million or 94.3% when compared to June 30, 2016. This decrease results from the $112.4 million operating loss and a $32.8 million adjustment to net position from the implementation of GASB Statements No. 68 and 71. Additional information about net position composition is presented in Note 11 to the basic financial statements.

Comparison of 2017 and 2016 Revenue, Expenses, and Changes in Net Position

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

Revenue Expense, and Change in Net Position	2017	2016	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Interest Income:				
Interest income from loans	$ 11,773	$ 16,554	$ -4,781	-29%
Interest income from investment	40	13,623	-13,583	-100%
Total interest income	11,813	30,177	-18,364	-61%
Total non-interest loss	-6,890	-6,092	-798	13%
Total operating revenue	4,922	24,085	-19,163	-80%
Operating expenses:				
Provision for loan losses	95,050	12,550	82,500	657%
Total interest expense	1,246	13,731	-12,485	-91%
Total noninterest expense	21,122	12,677	8,445	67%
Total operating expenses	117,418	38,958	78,460	201%
Operating loss	-112,496	-14,873	-97,623	656%
Capital contribution	66	26	40	153%
Net income (Loss) and change in net position	$ -112,430	$ -14,847	$ -97,583	657%

For the year ended June 30, 2017, the Bank presents an operating loss of $112.5 million when compared to the operating loss of $14.8 million for the year ended June 30, 2016. The decrease in operating income resulted from the net effect of the following:

a. Interest Income

Total interest income decreased by approximately 61% or $18.3 million, from $30.2 million in 2016 to $11.8 million in 2017. This decrease in interest income was mainly the result of decreased average transaction volumes during the fiscal year.

b. Non-interest losses

Non-interest losses increased by approximately $798,000, from a $ 6.1 million in fiscal year 2016 to a $6.9 million in 2017. This increase was mainly due to an increase in net realized and unrealized losses on investments of $882,000, from $6.6 million in 2016 to $7.5 million in 2017.

The net realized and unrealized losses on investment for 2017 result from the combined effect of $8 million net unrealized losses in venture capital investments, net of $500,000 net realized gain in investment securities.

c. Provision for Loan Losses

Compared to 2016, the provision for loan losses shows an increase of $82.5 million. This mainly due to the adjustments made to the reserve for loan losses resulting from the sale of approximately $117.9 million in loans during fiscal year 2017-18 and up to September 2018.

Impaired loans requiring an allowance for loan losses increased by $32.5 million, from $31.9 million in 2016 to $64.4 million in 2017, and the specific allowance for these increased by $36.8 million, from $7.7 million to $44.6 million. As a percentage of the total loans' portfolio, impaired loans represent 47.5% and 11.7% at June 30, 2017 and 2016, respectively. Loans charged off during fiscal year 2017 increased by $24.2 million when compared to 2016, from $13.6 million in 2016 to $37.8 million in 2017. As a percentage of the total loans' portfolio, the allowance for loan losses represents 43.6% and 7.1% at June 30, 2017 and 2016, respectively.

Loan collections decreased from $137.3 million during fiscal year 2016 to $90 million for fiscal year 2017.

d. Interest Expense

Total interest expense decreased by 90.9% or $12.5 million, from $13.7 million in 2016 to $1.2 million in 2017. 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 $8.4 million or 66.6% during fiscal year 2017. This increase in non-interest expenses resulted from the net effect of the following:

- Salaries and employee benefits increased by 88.1% or $7.4 million from approximately $8.3 million in 2016 to approximately $15.7 million in 2017. The increase is mainly due to the accrual of $5 million to cover the benefits of the Early Retirement Program enacted under PR Law No. 211 of 2015, and the recording of $1.9 million in Pension expense related to the implementation of GASB Statements No. 68 and No. 71.
- Professional fees increased by 139% or $526,100, from approximately $378,500 in 2016 to approximately $904,600 in 2017.
- Provision for foreclosed assets increased 54% or $400,000, from $740,000 in 2016 to $1,140,000 in 2017.
- Occupancy and related expenses (including depreciation and amortization) increased by 4.5% or $33,000, from approximately $728,400 in 2016 to approximately $761,500 in 2017.
- Advertising expense decreased by 16.5% or $45,400, from approximately $275,200 in 2016 to approximately $229,800 in 2017.
- All other non-interest expenses increased by 7.5 % or $164,500, from approximately $2.2 million in 2016 to approximately $2.4 million in 2017. The increase is mainly due to the loss recorded due to the impairment of deposits in the Government Development Bank of $333,700.

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 2017 to 2016, mainly due to a decrease in time deposits. When compared with fiscal year 2016, time deposits balances from other governmental and financial institutions decreased 13.2% or $22.2 million in 2017, providing tolerable levels of funding to maintain the Bank's activities. Interest rates during fiscal years 2017 and 2016 remained low.

During the fiscal years 2017 and 2016, $988,000 and $1,035,000 were recovered in previously charged off loans, respectively.

Discussion of Significant Capital Assets and Long-Term Debt Activity

During fiscal year 2017, approximately $319,000 in capital assets were acquired and approximately $71,000 were retired. As of year-end, the total promissory notes and other note payable balance was $7.2 million. Additional information about capital assets and long-term debt activity is presented in Notes 5 and 9 to the basic financial statements, respectively.

Currently Known Facts

A) Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Financial Emergency and Fiscal Responsibility of Puerto Rico Act and Related Executive Orders

On April 6, 2016, the Commonwealth enacted Act No. 21 of 2016 known as the Puerto Rico Emergency Moratorium and Rehabilitation Act (as amended, the Moratorium Act). Pursuant to the Moratorium Act, the Governor issued a series of executive orders declaring an emergency period, a moratorium and various other measures with respect to certain obligations of the Commonwealth of Puerto Rico and several of its instrumentalities. Pursuant to these executive orders, certain Commonwealth entities have either: i) not made debt service payments (ii) made debt service payments with funds on deposit with the trustees of their bonds, and/or (iii) not received or transferred certain revenues. Such executive orders also placed significant restrictions on the disbursement of funds deposited at GDB and suspended the disbursement of loans by GDB.

On January 29, 2017, the Governor signed into law Act No. 5 of 2017, known as the Puerto Rico Fiscal Responsibility and Financial Emergency Act (as amended, Act No. 5), which repealed certain provisions of the Moratorium Act and authorized additional emergency measures. Pursuant to Act No. 5 however, the executive orders issued under the Moratorium Act would continue in effect until amended, rescinded or suspended. The emergency period under Act No. 5 will expire on June 30, 2018, unless extended by the Governor. Some additional powers provided to the Governor through Act No. 5 include the authority to (i) Exercise receivership powers to rectify the financial emergency, (ii) exercise general supervisory control over the functions and activities of all government entities within the executive Branch, and (iii) issue executive orders to implement and enforce compliance with Act No. 5.

The Commonwealth has not included appropriations for the payment of debt service in its general fund budget since fiscal year 2017, as payment of such obligations has been suspended pursuant to the Moratorium Act and Act No. 5.

The Moratorium Act also created a new Fiscal Agency and Financial Advisory Authority (FAFAA), as an independent public corporation to assume GDB's role as fiscal agent, financial advisor and reporting agent for the Commonwealth, its component units, and municipalities. FAFAA has also been assigned the tasks of overseeing matters related to the restructuring or adjustment of the Commonwealth's financial liabilities, coordinating liability management or other transactions with respect to such obligations, and ensuring compliance with fiscal plans and budgets approved by the Oversight Board pursuant to PROMESA. See below.

B) Custodial Credit Risk on Deposits at GDB

On October 18, 2016, the Secretary of the Treasury issued Circular Letter No. 1300-08-17 (CC 1300-08-17) alerting the Commonwealth's agencies and component units with funds deposited with GDB, about deposits exposure to credit risk because of GDB's liquidity shortage and corresponding insolvency situation. The CC 1300-08-17 also reminded that with the passage of Act 21 and EO No. 2016-10, GDB believes there is substantial doubt about its ability to continue as a going concern. For all those reasons, CC 1300-08-17 urged all Commonwealth 's agencies and component units with funds deposited with GDB to conduct an impairment analysis on deposits at GDB at June 30, 2016 and 2017.

C) Oversight Board

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which grants the Commonwealth and its component unit's access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditors and lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

D) *Government Development Bank's Fiscal Plan and Winding Down of Operations*

On April 28, 2017, the Financial Oversight and Management Board of Puerto Rico (the "Oversight Board") created under PROMESA, approved and certified the fiscal plan of GDB that recommends the winding down of its operations during the next ten (10) years.

On April 20, 2018, the Oversight Board approved and certified the GDB's new fiscal plan amended due to impact of hurricanes Irma and Maria. GDB will continue to exist as a legal entity with substantially all employees separating or transferring from GDB. The plan reflects operational activity limited to resolving certain outstanding legal matters and pursuing resolution strategies of certain public entity loans with any proceeds assigned to the Recovery authority, pursuant to the terms of a Restructuring Support Agreement (GDB RSA). The GDB RSA is expected to be consummated pursuant to a consensual restructuring of the GDB's long-term obligations through a PROMESA's Title VI Qualifying Modification.

Contacting the Bank's Financial Management

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

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Net Position

June 30, 2017

ASSETS		EDB Operating Fund		EDB Capital Investment		Eliminations		Total
CURRENT ASSETS:								
Cash, due from banks and deposits at GDB	$	52,084,956	$	—	$	—	$	52,084,956
Interest-bearing deposits and commercial paper		—		7,944,902		(7,944,902)		—
Loans, net of allowance for loan losses of $39,692,435		42,053,326		—		—		42,053,326
Accrued interest receivable		595,701		927		(927)		595,701
Total current assets		94,733,983		7,945,829		(7,945,829)		94,733,983
NONCURRENT ASSETS:								
Investments		3,400,000		31,727,828		—		35,127,828
Loans, net of allowance for loan losses of $37,812,842		58,046,125		—		—		58,046,125
Other assets		13,496,596		—		—		13,496,596
Capital assets:								
Land		2,735,000		—		—		2,735,000
Building and improvements		11,812,264		—		—		11,812,264
Furniture and equipment		5,113,061		—		—		5,113,061
Less accumulated depreciation and amortization		(11,308,036)		—		—		(11,308,036)
Total capital assets		8,352,289		—		—		8,352,289
Total noncurrent assets		83,295,010		31,727,828		—		115,022,838
Total assets	$	178,028,993	$	39,673,657	$	(7,945,829)	$	209,756,821
Deferred outflows of resources:								
Pension related		11,033,179		—		—		11,033,179
LIABILITIES								
CURRENT LIABILITIES:								
Time deposits	$	153,164,027	$	—	$	(7,944,902)	$	145,219,125
Accrued interest payable		115,602		—		(927)		114,675
Note payable		629,957		—		—		629,957
Due to other fund		8,691		(8,691)		—		—
Other current liabilities		3,462,752		—		—		3,462,752
Total current liabilities		157,381,029		(8,691)		(7,945,829)		149,426,509
NONCURRENT LIABILITIES:								
Note Payable		6,609,080		—		—		6,609,080
Net pension liability		44,849,232		—		—		44,849,232
Other liabilities		10,297,541		—		—		10,297,541
Total noncurrent liabilities		61,755,853		—		—		61,755,853
Total liabilities		219,136,882		(8,691)		(7,945,829)		211,182,362
Deferred inflows of resources:								
Pension related		858,381		—		—		858,381
NET POSITION:								
Invested in capital assets		1,113,251		—		—		1,113,251
Restricted for special loan programs		8,413,250		—		—		8,413,250
Unrestricted		(40,459,592)		39,682,348		—		(777,244)
Total net position	$	(30,933,091)	$	39,682,348	$	—	$	8,749,257

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

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Net Position

June 30, 2016

ASSETS		EDB Operating Fund		EDB Capital Investment		Eliminations		Total
CURRENT ASSETS:								
Cash and due from banks	$	23,023,029	$	—	$	—	$	23,023,029
Interest-bearing deposits and commercial paper		—		8,896,292		(8,896,292)		—
Loans, net of allowance for loan losses of $8,188,366		103,903,203		—		—		103,903,203
Accrued interest receivable		1,257,970		951		(951)		1,257,970
Due from other fund		3,821		—		(3,821)		—
Total current assets		128,188,023		8,897,243		(8,901,064)		128,184,202
NONCURRENT ASSETS:								
Investments		2,900,000		38,813,356		—		41,713,356
Loans, net of allowance for loan losses of $11,051,300		148,553,774		—		—		148,553,774
Other assets		11,371,643		—		—		11,371,643
Capital assets:								
Land		2,735,000		—		—		2,735,000
Building and improvements		11,645,936		—		—		11,645,936
Furniture and equipment		5,031,259		—		—		5,031,259
Less accumulated depreciation and amortization		(10,964,644)		—		—		(10,964,644)
Total capital assets		8,447,551		—		—		8,447,551
Total noncurrent assets		171,272,968		38,813,356		—		210,086,324
Total assets	$	299,460,991	$	47,710,599	$	(8,901,064)	$	338,270,526
LIABILITIES								
CURRENT LIABILITIES:								
Time deposits	$	176,292,095	$	—	$	(8,896,292)	$	167,395,803
Accrued interest payable		696,720		—		(951)		695,769
Promissory notes and other note payable		594,299		—		—		594,299
Due to other fund		—		3,821		(3,821)		—
Other current liabilities		2,597,874		—		—		2,597,874
Total current liabilities		180,180,988		3,821		(8,901,064)		171,283,745
NONCURRENT LIABILITIES:								
Promissory notes and other note payable		7,239,037		—		—		7,239,037
Other liabilities		5,759,788		—		—		5,759,788
Total noncurrent liabilities		12,998,825		—		—		12,998,825
Total liabilities		193,179,813		3,821		(8,901,064)		184,282,570
NET POSITION:								
Invested in capital assets		614,215		—		—		614,215
Restricted for special loan programs		24,726,500		—		—		24,726,500
Unrestricted		81,940,463		46,706,778		—		128,647,241
Total net position	$	107,281,178	$	46,706,778	$	—	$	153,987,956

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

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Revenue, Expenses, and Changes in Net Position

For the Year Ended June 30, 2017

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
OPERATING REVENUE:				
INTEREST INCOME:				
Loans	$ 11,772,885	$ —	$ —	$ 11,772,885
Investments	43	—	—	43
Deposits with other banks and commercial paper	39,599	30,259	(30,259)	39,599
Total interest income	11,812,527	30,259	(30,259)	11,812,527
NONINTERST INCOME (LOSS):				
Net realized and unrealized losses on investments	500,000	(7,988,433)	—	(7,488,433)
Other income	663,843	—	(65,854)	597,989
Total noninterest loss	1,163,843	(7,988,433)	(65,854)	(6,890,444)
Total operating revenue (loss)	12,976,370	(7,958,174)	(96,113)	4,922,083
OPERATING EXPENSES:				
Provision for loan losses	95,050,000	—	—	95,050,000
INTEREST EXPENSE:				
Promissory notes and other note payable	471,534	—	—	471,534
Time deposits	804,635	—	(30,259)	774,376
Securities sold under agreements to repurchase	—	—	—	—
Total interest expense	1,276,169	—	(30,259)	1,245,910
NON INTEREST EXPENSE:				
Salaries and employee benefits	8,311,285	—	—	8,311,285
Depreciation and amortization	414,061	—	—	414,061
Occupancy and related expenses	347,397	—	—	347,397
Professional fees	904,603	65,854	(65,854)	904,603
Advertising	229,836	—	—	229,836
Custodial credit loss on deposits at GDB	333,726	—	—	333,726
Early retirement program	5,546,982	—	—	5,546,982
Pension expense	1,865,928	—	—	1,865,928
Other	3,167,912	403	—	3,168,315
Total noninterest expenses	21,121,730	66,257	(65,854)	21,122,133
Total operating expenses	117,447,899	66,257	(96,113)	117,418,043
Operating loss	(104,471,529)	(8,024,431)	—	(112,495,960)
Transfer in (out)	(1,000,000)	1,000,000	—	—
Capital contribution	65,766	—	—	65,766
Decrease in net position	(105,405,763)	(7,024,431)	—	(112,430,194)
TOTAL NET POSITION, beginning of year, as previously reported	107,281,178	46,706,779	—	153,987,956
Impact of GASB Statements No. 68 and No. 71 implementation	(32,808,506)	—	—	(32,808,505)
TOTAL NET POSITION, beginning of year, restated	74,472,672	46,706,779	—	121,179,451
TOTAL NET POSITION, end of year	$ (30,933,091)	$ 39,682,348	$ —	$ 8,749,257

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

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Revenue, Expenses, and Changes in Net Position

For the Year Ended June 30, 2016

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
OPERATING REVENUE:				
INTEREST INCOME:				
Loans	$ 16,554,015	$ —	$ —	$ 16,554,015
Investments	13,574,942	—	—	13,574,942
Deposits with other banks and commercial paper	47,672	37,201	(37,201)	47,672
Total interest income	30,176,629	37,201	(37,201)	30,176,629
NONINTERST INCOME (LOSS):				
Net realized and unrealized losses on investments	(1,590,764)	(5,015,196)	—	(6,605,960)
Other income	565,266	—	(51,727)	513,539
Total noninterest loss	(1,025,498)	(5,015,196)	(51,727)	(6,092,421)
Total operating revenue (loss)	29,151,131	(4,977,995)	(88,928)	24,084,208
OPERATING EXPENSES:				
Provision for loan losses	12,550,000	—	—	12,550,000
INTEREST EXPENSE:				
Promissory notes and other note payable	12,062,885	—	—	12,062,885
Time deposits	1,643,951	—	(37,201)	1,606,750
Securities sold under agreements to repurchase	61,119	—	—	61,119
Total interest expense	13,767,955	—	(37,201)	13,730,754
NON INTEREST EXPENSE:				
Salaries and employee benefits	8,357,420	—	—	8,357,420
Depreciation and amortization	396,606	—	—	396,606
Occupancy and related expenses	331,809	—	—	331,809
Professional fees	361,315	68,914	(51,727)	378,502
Advertising	275,213	—	—	275,213
Other	2,937,524	—	—	2,937,524
Total noninterest expenses	12,659,887	68,914	(51,727)	12,677,074
Total operating expenses	38,977,842	68,914	(88,928)	38,957,828
Operating loss	(9,826,711)	(5,046,909)	—	(14,873,620)
Capital contribution	26,319	—	—	26,319
Decrease in net position	(9,800,392)	(5,046,909)	—	(14,847,301)
TOTAL NET POSITION, beginning of year	117,081,570	51,753,688	—	168,835,257
TOTAL NET POSITION, end of year	$ 107,281,178	$ 46,706,779	$ —	$ 153,987,956

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

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Cash flows from operating activities:				
Cash payments for goods and services	$ (3,081,476)	$ (66,257)	$ —	$ (3,147,733)
Cash payments to employees	(9,411,475)	404	—	(9,411,071)
Cash received from interest and principal on loans	102,667,064	—	—	102,667,064
Other payments	(2,853,188)	55,610	—	(2,797,578)
Cash disbursed for loaned amounts	(33,576,281)		—	(33,576,281)
Net cash provided by (used in) operating activities	53,744,644	(10,243)	—	53,734,401
Cash flows from non-capital financing activities:				
Net increase/ (decrease) in:				
Time Deposits	(23,128,068)	—	951,390	(22,176,678)
Securities sold under a agreements to repurchase	—	—	—	—
Repayment of promissory notes	—		—	—
Interest paid on time deposits	—		—	—
securities sold under agreements to repurchase	(1,387,286)	—	30,283	(1,357,003)
Net cash used in noncapital financing activities	(24,515,354)	—	981,673	(23,533,681)
Cash flows from capital and related financing activities:				
Capital contribution	65,766	—	—	65,766
Acquisition of capital assets	(318,799)	—	—	(318,799)
Principal payment on capital debt	(594,299)	—	—	(594,299)
Interest paid on capital debt	(470,000)	—	—	(470,000)
Net cash used in capital and related financing activities	(1,317,332)	—	—	(1,317,332)
Cash flows from capital and related financing activities:				
Acquisition of investments	—	(971,430)	—	(971,430)
Principal collections and maturities of investments	—	—	—	—
Net decrease/ (increase) in:				
Interest bearing deposits with other banks	—	951,390	(951,390)	—
Interest collected on investments, notes receivable,	116,734			116,734
interest-bearing deposits with other banks, and	.			
commercial paper	—	30,283	(30,283)	—
Proceeds from sales of foreclosed assets	1,033,235	—	—	1,033,235
Net cash provided by investing activities	1,149,969	10,243	(981,673)	178,539
Net increase in cash and due from banks	29,061,927	—	—	29,061,927
CASH AND DUE FROM BANKS, beginning of year	23,023,029	—	—	23,023,029
CASH AND DUE FROM BANKS, end of year	$ 52,084,956	$ —	$ —	$ 52,084,956

(continues)

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Cash Flows

For the Year Ended June 30, 2017

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Reconciliation of operating loss to net cash provided by Operating activities:				
Operating loss	$ (104,471,529)	$ (8,024,431)	$ —	$ (112,495,960)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	414,061	—	—	414,061
Net realized and unrealized loss on investments	(500,000)	8,056,555	—	7,556,555
Provision for loan losses	95,050,000	—	—	95,050,000
Provision for losses on foreclosed assets	1,140,000	—	—	1,140,000
Loss on sale of foreclosed assets	205,984	—	—	205,984
Interest income from investments	(39,642)	(30,259)	30,259	(39,642)
Decrease in accrued interest receivable from loans	585,176	—	—	585,176
Interest expense	1,276,169	—	(30,259)	1,245,910
Dividend income	—	—	—	—
Decrease in other assets	(3,916,856)	(12,512)	—	(3,929,368)
Decrease in loans receivable	56,732,722	—	—	56,732,722
Net pension liability expense	1,865,928	—	—	1,865,928
Increase in other liabilities	5,402,631	404	—	5,403,035
Net cash provided by (used in) operating activities	$ 53,744,644	$ (10,243)	$ —	$ 53,734,401
Supplemental cash flow information and noncash transactions:				
Decrease in fair value of investments	$ 500,000	$ (8,056,555)	$ —	$ (7,556,555)
Transfers from loans to foreclosed real estate	$ 188,555	$ —	$ —	$ 188,555
Retirement of fully depreciated capital assets	$ 70,669	$ —	$ —	$ 70,669

(concluded)

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

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Cash Flows

For the Year Ended June 30, 2016

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Cash flows from operating activities:				
Cash payments for goods and services	$ (3,033,544)	$ (68,913)	$ —	$ (3,102,457)
Cash payments to employees	(8,442,599)	—	—	(8,442,599)
Cash received from interest and principal on loans	144,599,963	—	—	144,599,963
Other payments	1,656,251	(1,114,009)	—	542,242
Cash disbursed for loaned amounts	(96,825,797)		—	(96,825,797)
Net cash provided by (used in) operating activities	37,954,274	(1,182,922)	—	36,771,352
Cash flows from non-capital financing activities:				
Net increase/ (decrease) in:				
Time Deposits	(47,442,880)	—	2,700,777	(44,742,103)
Securities sold under a agreements to repurchase	(28,756,000)	—	—	(28,756,000)
Repayment of promissory notes	(411,997,916)		—	(411,997,916)
Interest paid on time deposit agreements to repurchase, and promissory notes	(18,878,440)	—	37,264	(18,841,176)
Net cash used in noncapital financing activities	(507,075,236)	—	2,738,041	(504,337,195)
Cash flows from capital and related financing activities:				
Capital contribution	26,319	—	—	26,319
Acquisition of capital assets	(142,345)	—	—	(142,345)
Principal payment on capital debt	(560,660)	—	—	(560,660)
Interest paid on capital debt	(503,640)	—	—	(503,640)
Net cash used in capital and related financing activities	(1,180,326)	—	—	(1,180,326)
Cash flows from capital and related financing activities:				
Acquisition of investments	(10,000,000)	(2,685,713)	—	(12,685,713)
Principal collections and maturities of investments	463,029,601	1,130,595	—	464,160,196
Net decrease/ (increase) in:				
Interest bearing deposits with other banks	10,800,000	2,700,777	(2,700,777)	10,800,000
Interest collected on investments, notes receivable, interest-bearing deposits with other banks, and commercial paper	19,637,846	37,264	(37,264)	19,637,846
Proceeds from sales of foreclosed assets	3,030,794	—	—	3,030,794
Net cash provided by investing activities	486,498,241	1,182,923	(2,738,041)	484,943,123
Net increase in cash and due from banks	16,196,953	1	—	16,196,954
CASH AND DUE FROM BANKS, beginning of year	6,826,075	—	—	6,826,075
CASH AND DUE FROM BANKS, end of year	$ 23,023,028	$ 1	$ —	$ 23,023,029

(continues)

ECONOMIC DEVELOPMENT BANK FOR PUERTO RICO

Statement of Cash Flows

For the Year Ended June 30, 2016

	EDB Operating Fund	EDB Capital Investment	Eliminations	Total
Reconciliation of operating loss to net cash provided by Operating activities:				
Operating loss	$ (9,826,711)	$ (5,046,909)	$ —	$ (14,873,620)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation and amortization	396,607	—	—	396,607
Net realized and unrealized loss on investments	1,590,764	5,015,197	—	6,605,961
Provision for loan losses	12,550,000	—	—	12,550,000
Provision for losses on foreclosed assets	740,000	—	—	740,000
Loss on sale of foreclosed assets	249,023	—	—	249,023
Interest income from investments	(13,622,613)	(37,201)	37,201	(13,622,613)
Decrease in accrued interest receivable from loans	(33,443)	—	—	(33,443)
Interest expense	13,767,956	—	—	13,767,956
Decrease in other assets	989,445	(1,114,010)	(37,201)	(161,766)
Decrease in loans receivable	31,253,593	—	—	31,253,593
Increase in other liabilities	(100,346)	—	—	(100,346)
Net cash provided by (used in) operating activities	$ 37,954,275	$ (1,182,923)	$ —	$ 36,771,352
Supplemental cash flow information and noncash transactions:				
Decrease in fair value of investments	$ (2,193,035)	$ (956,624)	$ —	$ (3,149,659)
Transfers from loans to foreclosed real estate	$ 10,190,327	$ —	$ —	$ 10,190,327
Retirement of fully depreciated capital assets	$ 22,228	$ —	$ —	$ 22,228

(concluded)

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

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

In October 2016. EDB created a component unit named Economic Development Bank Insurance Agency (EDBIA). EDBIA is a blended component unit of the Bank. The balances and transactions of EDBIA 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 EDBIA is the same as that of the Bank. EDBIA operation consists only of supporting the Bank's mission in promoting the development of the private sector of the economy of Puerto Rico. In February 2017, EDBIA received the broker certification to become the insurance agency of local insurance producers.

The accounting policies followed by the Bank are in accordance with GAAP, as applicable to governmental entities. The activities of the Bank are accounted for in an enterprise fund. Accordingly, the Bank follows the accrual basis of accounting and the economic resources measurement focus. Revenue is recognized when earned, regardless of when received, and expenses are recognized when incurred, regardless of when paid.

The 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 these 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 estimates and assumptions.

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

The Bank's investment policies also establish limitations and other guidelines on amounts to be invested in the investment categories. Such policies provide the requirements in the institutions with which investment transactions can be entered into. In addition to 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 applicable put options as described in participating interest-earning purchase of one investment are the statements determined based at fair value. Money market investments and investment contracts with a remaining maturity at time of year or less are presented at amortized presented in net realized and unrealized of revenue, expenses, and changes cost. Changes in the fair value of gains (losses) on investments in in net position. Fair value is 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.

GASB Statement No. 72, *Fair Value Measurement and Application* was adopted by the Bank effective July 1, 2016. This Statement requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. The techniques should be consistent with one or more of the following approaches; the market approach, the cost approach, or the income approach. This Statement also establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the assets or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumptions of the default rate among underlying mortgages of a mortgage-backed security. Implementation of this standard had no effect on the beginning net position of the Bank. Refer to Note 6 for further details.

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.

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.

Classification of Loans and Allowance for Loan Losses - The current portion of loans includes the active principal of loans with maturities of one year or less and past due over three months and/or those loans undergoing judicial or bankruptcy proceedings. Also, these include the estimated current portion of loans with maturity over one year. The resulting difference was reported as the noncurrent portion. The allowance for loan losses was allocated 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 allowance 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.

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 Entitles 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.

Deferred Outflows/ Inflows of Resources - In addition to assets, the statement of net position (deficit) includes a separate section for deferred section outflows/ inflows of resources. These separate financial statement elements, deferred outflows/ inflows of resources, represent a depletion (expense/ expenditure) or accretion (income) of net position (deficit) that applies to future periods and so will not be recognized as an outflow/inflow of resources until then.

2. RESTATEMENT OF NET POSITION

The Bank adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB Statement No. 68 required that employers and non-employer contributing entities report a net pension liability and related pension expense as determined by the plans under the requirements contained in GASB Statement No. 67. Previously, GASB Statement No. 27 required employers to report net pension obligation as determined under the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans. The Employees' Retirement System of the Commonwealth of Puerto Rico (ERS) implemented retroactively GASB No.67 for the fiscal year ended June 30, 2014. However, information for the implementation of GASB statements No. 27, 68 and 71 was not available for the Bank until fiscal year ended June 30, 2017. GASB Statement No. 67 replaced the requirements of GASB Statement No. 25 and specified the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 required plans to calculate a net pension plan's fiduciary net position. During the year ended June 30, 2017, the Bank implemented GASB Statement No.71 requiring that upon implementation of GASB Statement No. 68 a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability.

Implementation of these new financial reporting standards required that the Bank restate its beginning net position as of July 1, 2016, reflecting the cumulative effects of applying these statements. In addition, in accordance with the provisions of these statements, beginning balances of deferred pension outflows of resources and deferred pension inflows of resources for pension contributions made subsequent to the measurement date of the beginning pension liability but before of the Bank's fiscal year. Disclosures required under GASB Statement No. 68 only apply to the defined benefit plans under the Retirement Systems for which the Bank is required to fund the net pension liability.

The information to adopt these Statements predominantly was based on the new actuarial report prepared under the GASB Statement No. 67.

The following table illustrates the cumulative effect of the retroactive application of GASB 68 and 71 related to the deferred outflows of resources from pension activities, net pension liability and deferred inflows of resources related to pension activities as reported in the Statement of Revenue, Expenses and Changes in Net Position.

Net Position - Beginning of the year, as previously reported	$	153,987,956
Cummulative effect of change in accounting principle at July 1, 2016 for:		
Deferred outflows of resources, pension related		6,237,054
Net Pension Liability		(38,807,777)
Deferred inflows of resources, pension related		(237,782)
Net Position - Beginning of the year, as restated	$	121,179,451

3. GOING CONCERN

As of June 30, 2017, the Bank faces significant risk and uncertainties and currently does not have or is not expected to have enough liquid financial resources to meet its obligations as they become due in the ordinary course of its operations, without restructuring its debt or other initiatives. The financial condition and liquidity of the Bank and Commonwealth have deteriorated. The financial difficulties experienced by the Bank and Commonwealth included the uncertainty as to ability to fully meet its obligations. Also, considering that most of the Bank deposits are from agencies from the Commonwealth of Puerto Rico, any further deterioration in the Commonwealth financial condition could have an adverse effect in the Bank ability to continue its operations. The Bank does not receive nor require recurrent assignments of funds from the Puerto Rico’s Legislature or from other governmental entities to finance its operations. Further deterioration in the Bank and Commonwealth’s financial condition and liquidity could have an adverse effect in the Bank’s ability to continue its operations.

On June 30, 2016, the U.S. President signed the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”), which grants the Commonwealth and its component unit’s access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth’s finances. In broad strokes, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditors and lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

Since its inception in 2016, the Financial Oversight and Management Board for Puerto Rico (Oversight Board) has worked with the Commonwealth to carry out its responsibilities under PROMESA, (Puerto Rico Oversight, Management, and Economic Stability Act) to assist the Commonwealth to achieve fiscal balance, provide a path for its return to the capital markets and restore economic growth. The Bank was included as one of the entities covered by PROMESA. The Oversight Board established deadlines for covered entities that will require individual fiscal plans and are not included in the Commonwealth’s fiscal plan as soon as feasible. Presently, the Bank has not been required to prepare a fiscal plan to be approved by the Oversight Board. Due to the conditions and events discussed above and throughout these basic financial statements, management believes substantial doubt exists in the Bank’s ability to continue as a going concern.

Remediation Plan

Master Strategic - The Bank developed a strategic master business plan for the next three years with new business strategies aimed at improving their operations; starting with the monetization of all legacy loan portfolio to third parties which will provide liquidity to continue operations while developing and implementing new income producing initiatives. Among the initiatives is a layered guarantee programs to increase the guarantees that certain federal agencies offer such as Small Business Administration (SBA) and Rural Development to increase the current approval rates and thus, the amounts of loans disbursed to the economy. The Bank will also launch guarantee programs to Puerto Rico chartered credit unions and commercial banks. Basically, all initiatives in the strategic plan will capitalize on its current operating structure to originate, process and close loans and developing demand deposits products. Also, the Bank expects to create several new market tax credit funds over a determined period. This is a U.S. Treasury program that matches 1:1 federal funds with private investment providers and grants are awarded on an annual basis for a maximum amount of $100 million.

Government Entities Consolidation and other Government Sponsored Initiatives - As part of the Commonwealth's broad fiscal plan, the Bank is in discussions to enter in consolidation negotiations or to acquire or transferring from certain business functions with other governmental entities of the Commonwealth. The management of the Bank believes that merging into these business and government operations will create a single mission, unified entity to become stronger and to eliminate redundancies and obtain economies of scale by shared services more economical without reducing quality of service and fulfilling an economic development need for the Commonwealth now lacking because of the wind-down of GDB operations. See Note 23.

The Bank will also have a direct participation in the Government of Puerto Rico Disaster Recovery Action Plan for the use of CDBG funds (estimated in approximately $16 billion covering various years through 2032) awarded by the U.S Government in response to the hurricanes Irma and María. The Bank is developing construction and commercial revolving loan and small business financing programs aligned to eligible CDBG activities in the economic development and job creation or retention course of action from the Puerto Rico Recovery Plan.

Bank Participation in RSA with GDB - As discussed in Note 5, the Bank expects to participate in the Restructuring Support Agreement with GDB that creditors to GDB have agreed to undertake a financial restructuring of GDB pursuant to a Qualifying Modification under Title VI of PROMESA. Also, the Bank's deposits are mostly derived from government agencies from the Commonwealth and it expects to develop a similar plan for its own creditors. See Note 10.

4. CASH AND DUE FROM BANKS, INTEREST BEARING DEPOSITS WITH OTHER BANKS AND COMMERCIAL PAPER

Custodial credit risk is the risk that, in event of a financial institution failure, the Bank will not be able to recover its deposits. The Commonwealth requires that public funds deposited in commercial banks in Puerto Rico must be fully collateralized for the amount deposited in excess of the federal depository insurance. All securities pledged as collateral are held by the Secretary of Treasury. The Bank does not have a formal policy for custodial credit risk for cash opened with commercial banks outside Puerto Rico. The Bank's policies for deposits placed with banks establish maximum exposure limits for each institution based on the institution capital, financial condition and credit rating assigned by nationally recognized rating agencies.

The table presented below discloses the level of custodial credit risk assumed by the Bank at June 30, 2017 and 2016.

June 30, 2017

Description	Carrying Amount	Depository Bank Balance	Amount uninsured and uncollateralized
Cash and due from banks	$ 52,084,956	$ 51,829,969	$ 51,329,969
Deposits at GDB	-	333,726	333,726
Total	$ 52,084,956	$ 52,163,695	$ 51,663,695

June 30, 2016

Description	Carrying Amount	Depository Bank Balance	Amount uninsured and uncollateralized
Cash and due from banks	$ 22,689,626	$ 23,485,659	$ 22,438,513
Deposits at GDB	333,403	333,403	333,403
Total	$ 23,023,029	$ 23,819,062	$ 22,771,916

At June 30, 2017 and 2006, the Bank maintains approximately $333,726 and $333,403 of cash deposits balances with the GDB which are not covered by federal depository insurance. Deposits with GDB are uninsured and uncollateralized. GDB faces significant risk and uncertainties and it currently does not have sufficient liquid financial resources to meet its obligations as they become due. Therefore, deposits held at GDB were subject to strict restrictions and limitations during fiscal year 2017 and subsequent periods. GDB served as the primary depositary agent of the Commonwealth, its instrumentalities and municipalities funds; depositors' cash and cash equivalents with GDB are thus subject to custodial credit risk. Management determined that a custodial credit loss existed as of June 30, 2017 for the deposits held at GDB. Based on an evaluation of the availability and recoverability of such deposits, a custodial credit loss on these deposits, of which $333,403 should have been attributed to fiscal year 2016, has been recorded on the 2017 financial statements as follows:

June 30, 2017

Description	Deposit Balance	Custodial Credit Loss	Book Balance
Deposits at GDB	$ 333,726	$ (333,726)	$ -
Total	$ 333,726	$ (333,726)	$ -

GDB currently is in a process directed to restructure its obligations. Such restructuring may require the offset between financial instruments assets and liabilities held at GDB. The proposed restructuring may require offset between financial instruments assets and liabilities held by GDB.

Upon an eventual restructuring of GDB obligations the recorded and unrecorded custodial credit loss on the interest-bearing deposits disclosed above may change, see Note 5.

5. Restructuring Support Agreement with GDB

The GDB fiscal plan reflected that it is unable to pay its financial obligations in full recognizing the need of debt relief. The Oversight Board authorized GDB to pursue the modification of its financial obligations outlined in the GDB RSA pursuant to Title VI of PROMESA. The GDB's revised and certified fiscal plan contemplates the wind-down of GDB's operations and the distribution of the cash flows of GDB's loan portfolio among its creditors (including depositors). Pursuant to the Restructuring Support Agreement (RSA), as amended, entered by and among GDB and a significant portion of its financial creditors (the "GDB RSA"), GDB noteholders and municipal depositors would be eligible to exchange their claims against GDB for bonds to be issued by a new government entity and with upfront exchange ratio of 55% and coupon rate of 7.5%. The new bonds would be payable from payments received in respect of certain assets to be transferred by GDB to such new government entity (consisting largely of municipal loans).

As part of the Restructuring Support Agreement, the Bank and GDB has been discussing an indicative term sheet for assets and liabilities which does not constitute a commitment and its subject to certain levels of approvals, including the Oversight Board. The book and face value balances of assets and liabilities of the Bank with GDB as of June 30, 2017 are as follows:

	Book Value	Face Value
Assets:		
Cash	$ -	$ 333,726
Investments	3,400,000	10,000,000
	$ 3,400,000	$ 10,333,726
Liabilities:		
Deposits	$ 35,400,000	$ 35,400,000
Note Payable	7,239,037	7,239,037
	$ 42,639,037	$ 42,639,037
Net Balance	$ (39,239,037)	$ (32,305,311)

The indicative term sheet states that on the closing date GDB will apply the amounts deposited by the Bank at GDB to the outstanding principal balance of the note payable. The Bank will pay in immediately from available funds, an amount equal to the outstanding amount of the note payable (principal and interest) after the amounts deposited by the Bank at GDB have been applied towards the principal balance of the note payable. In consideration of the note payable payment, the collateral on the GDB note payable will be released and GDB will deliver the mortgage note for cancellation. The Bank and GDB will enter into a Restructuring and Settlement Agreement with regards to the amounts deposited at the Bank of $35.4 million. An amount equal to 55% or approximately $19.5 million and 45% or approximately $15.9 million will be structured pursuant two new 20 years term loans bearing interest at a 3.5 % fixed rate. Notwithstanding the above, if the Bank assumes the total amount of liabilities of GDB and one of GDB's subsidiaries under a guarantee program described in Note 16 and the participating banks under the guarantee program, GDB would pardon the outstanding amounts under the $15.9 term loan. Subsequently to year end, the above terms were concurred with

GDB, FAFAA and the Oversight Board and were ratified by the Bank's Board of Directors. A definitive agreement is expected to be consummated early during 2019.

The cash deposits of $333,726 was determined to be impaired and a custodial credit loss was recorded, see Note 4. As explained above, GDB noteholders would be eligible to exchange their claims against GDB for bonds to be issued by a new government entity and with upfront exchange ratio of 55% and coupon rate of 7.5%.

6. INVESTMENTS

As of June 30, 2017, and 2016, the Bank had the following investments:

		June 30, 2017	
Investment Type		**Fair Value**	**Weighted Average Maturity (Years)**
Municipal bonds	$	3,400,000	0.0
External investment pools		31,727,828	N/A
Total fair value	$	35,127,828	

		June 30, 2016	
Investment Type		**Fair Value**	**Weighted Average Maturity (Years)**
Municipal bonds	$	2,900,000	0.0
External investment pools		34,095,177	N/A
Equity investments		4,718,179	N/A
Total fair value	$	41,713,356	

At June 30, 2017, the muncipal bonds represent GDB's senior notes for which principal and interest payments are not being received and it was in an unrealized loss position. As explained above, the GDB fiscal plan reflected that is unable to pay its financial obligations in full recognizing the need of debt relief. The Oversight Board authorized GDB to pursue the modification of its financial obligations outlined in the GDB RSA pursuant to Title VI of PROMESA. As explained in Note 5, GDB noteholders would be eligible to exchange their claims against GDB for bonds to be issued by a new government entity and with upfront exchange ratio of 55% and coupon rate of 7.5%.

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, 2016 (none at 2017):

	2016
Average amount outstanding during the year	$ 13,304,000
Maximin amount outstanding at any moth-end	$ 100,000,000
Weighted average interest rate for the year	0.27%

At June 30, 2017 and 2016, securities investments were registered in the name of the Bank and were held in the possession of the Bank's custodian institution. 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. There were no securities under agreement to resell activity during the years ended June 30, 2017 and 2016. 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.

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 investment or collateral securities that are in the possession of an outside party.

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.

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, 2017, the Bank's investment in municipal bonds was not rated. As of June 30, 2016, the Bank's investment in municipal bonds was rated D by Standard & Poor's and WR by Moody's Investor Service.

June 30, 2017

Investment Type		AAA to BBB		BB to D		NR		Total
		Credit Risk Rating*						
Municipal bonds	$	-	$	-	$	3,400,000	$	3,400,000
External investment pools		-				31,727,828		31,727,828
Total fair value	$	-	$	-	$	35,127,828	$	35,127,828

* Rating obtained from Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings.

June 30, 2016

Investment Type		AAA to BBB		BB to D		NR		Total
		Credit Risk Rating*						
Municipal bonds	$	-	$	2,900,000	$	-	$	2,900,000
External investment pools		-		-		33,646,750		33,646,750
Equity investments		-		-		5,166,606		5,166,606
Total fair value	$	-	$	2,900,000	$	38,813,356	$	41,713,356

* 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, an allowance 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, 2017 and 2016, the venture capital balances comprised the following:

	2017	2016
External investment pools	$ 31,727,828	$ 33,646,750
Equity investments	15,704,000	15,704,401
	47,431,828	49,351,151
Allowance for losses in equity investment	(15,704,000)	(10,537,795)
Fair value of venture capital investments	$ 31,727,828	$ 38,813,356

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.

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, 2017, 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.

The Bank was exposed to the following custodial credit risk for investments held at June 30, 2017 and 2016:

	2017	2016
Unisured and registered, with securities held by the counterparty's trust department or agent in the Bank's name	$ 3,400,000	$ 2,900,000
Unisured and unregistered, with securities held by the Bank	31,727,828	38,813,356
Total	$ 35,127,828	$ 41,713,356

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, 2017, the bank did not have investments in Municipal Bonds. As of June 30, 2016, more than 5% of the Bank's investments are in Municipal Bonds (7%).

Sale of Investments - No sales of investments took place during the year ended June 30, 2017. Proceeds from sales, principal payments, and maturities of investments, including equity investments and gross realized gains or losses, for the year ended June 30, 2016 were $27,129,457, $437,030,739 and $602,271, respectively.

The following table shows the investments by fair value level held by the Bank at June 30, 2017:

Investments by fair value level	As of June 30, 2017	Fair Value Measurement Levels: Level 1	Level 2	Level 3
Municipal bonds	$ 3,400,000	$ -	3,400,000	$ -
External investment pools:				
Guayacán Private Equity Funds	26,623,428	-	-	26,623,428
Venture Capital Fund	3,735,048	-	-	3,735,048
Others	1,369,352	-	-	1,369,352
Total investments by fair value level	$ 35,127,828	$ -	$ 3,400,000	$ 31,727,828

The debt securities classified in Level 2 of the fair value hierarchy are valued using inputs other than quoted prices under Level 1. The external investments pools classified as Level 3 of the fair value hierarchy are valued using unobservable inputs, such as management assumptions, on the measurement date.

7. 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, 2017 and 2016, the Bank has made no payments under the loan guarantee program.

Loans distribution among industry sectors as of June 30, 2017 and 2016 are as follows:

	2017	2016
Agricultural	$ 24,183,742	$ 34,625,134
Commercial	50,616,651	62,220,077
Services	79,394,632	120,893,407
Manufacturing	13,245,741	21,584,104
Tourism	10,163,962	32,373,921
Total Loans	177,604,728	271,696,643
Allowance for loans losses	(77,505,277)	(19,239,666)
	$ 100,099,451	$ 252,456,977

The reconciliation of loans with the statement of net position as of June 30, 2017 and 2016 is as follows:

	2017	2016
Current portion	$ 42,053,326	$ 103,903,203
Noncurrent portion	58,046,125	148,553,774
Total Loans	$ 100,099,451	$ 252,456,977

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.

At June 30, 2017 and 2016, loan delinquency by industry sector was as follows:

	2017				
	0 – 30 Days	**31 – 60 Days**	**61 – 90 Days**	**91+ Days**	**Outstanding Balance**
Agricultural	$ 17,269,333	$ 123,921	$ -	$ 6,790,486	$ 24,183,740
Commercial	37,190,612	3,228,489	1,075,630	9,121,921	50,616,652
Services	62,317,384	2,908,796	2,920,577	11,247,876	79,394,633
Manufacturing	7,247,840	119,919	72,000	5,805,982	13,245,741
Tourism	7,432,325	221,932	-	2,509,705	10,163,962
Total	$ 131,457,494	$ 6,603,057	$ 4,068,207	$ 35,475,970	$ 177,604,728

	2016				
	0 – 30 Days	**31 – 60 Days**	**61 – 90 Days**	**91+ Days**	**Outstanding Balance**
Agricultural	$ 26,060,169	$ 1,905,442	$ 188,841	$ 6,470,682	$ 34,625,134
Commercial	50,370,966	970,154	661,213	10,217,744	62,220,077
Services	104,637,350	791,488	551,891	14,912,678	120,893,407
Manufacturing	9,513,496	1,115,481	5,443,359	5,511,768	21,584,104
Tourism	21,186,551	3,876,561	1,376,775	5,934,034	32,373,921
Total	$ 211,768,532	$ 8,659,126	$ 8,222,079	$ 43,046,906	$ 271,696,643

The following is a summary of information on loans considered to be impaired in accordance with ASC subtopic 310-35-35 Receivables, as of June 30, 2017 and 2016 and the related interest income for the years then ended:

	2017	**2016**
Recorded investment in impaired loans not requiring an allowance for loan losses	$ 20,024,000	$ 76,393,000
Recorded investment in impaired loans requiring an allowance for loan losses	64,376,000	31,891,000
Total recorded investment on impaired loans	$ 84,400,000	$ 108,284,000
Related valuation allowance	$ 44,596,000	$ 7,763,000
Average recorded investment on impaired loans	$ 102,000,000	$ 106,100,000
Interest income recognized	$ 2,087,000	$ 2,892,000

At June 30, 2017 and 2016, 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 $88,185,747 ($35,382,352 over 89 days and $58,803,395 restructured loans) and $104,671,861 ($43,003,739 over 89 days and $61,668,122 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 $7,199,000 and $8,556,000 as of June 30, 2017 and 2016, respectively.

The balance of nonaccrual loans by industry sector at June 30, 2017 and 2016, were as follows:

	2017	2016
Agricultural	$ 12,322,921	$ 11,375,865
Commercial	30,027,510	30,622,059
Services	32,755,798	38,586,257
Manufacturing	8,028,264	12,675,746
Tourism	5,051,254	11,411,934
Total	$ 88,185,747	$ 104,671,861

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, 2017 and 2016 is as follows:

	2017		2016	
	Principal	**Allowance**	**Principal**	**Allowance**
Agricultural	$ 9,754,128	$ 5,460,542	$ 11,379,352	$ 133,821
Commercial	23,094,174	15,398,300	22,545,888	253,213
Services	21,797,813	11,272,115	26,949,602	758,458
Manufacturing	4,116,839	2,581,312	6,384,407	179,871
Tourism	4,585,070	2,419,546	8,458,101	6
Total	$ 63,348,024	$ 37,131,815	$ 75,717,350	$ 1,325,369

The following tables present the troubled debt restructuring modified during the years ended June 30, 2017 and 2016:

	2017		2016	
	Premodification	**Postmodification**	**Premodification**	**Postmodification**
Outstanding recorded investment	$ 6,167,098	$ 6,173,153	$ 2,275,642	$ 2,270,728
Number of contracts	15	15	19	19
Weighted average rate	8.21%	8.20%	6.47%	6.47%
Weighted average term (months)	71	89	52	119

Of the total troubled debt restructurings during 2017 and 2016, 5 contracts with a balance at June 30, 2017 of $769,999 and 13 contracts with a balance at June 30, 2016 of $1,246,314 defaulted after their modifications were processed.

At June 30, 2017 and 2016, Commitments to extend credit on troubled debt restructured loans amounted to $496,000 and $205,000, respectively.

Changes in the total allowance for loan losses for the years ended June 30, 2017 and 2016 were as follows:

	2017	2016
Balance, beginning of year	$ 19,239,666	$ 19,303,658
Provision charged to operations	95,050,000	12,550,000
Loans charged off as uncollectible	(37,772,061)	(13,648,711)
Recoveries	987,672	1,034,719
Balance, end of year	$ 77,505,277	$ 19,239,666

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, 2017 and 2016:

	2017					
	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 2,430,661	$ 3,426,816	$ 9,094,736	$ 1,623,683	$ 2,663,770	$ 19,239,666
Provision charged to provisions	12,473,411	32,140,208	32,629,135	6,735,782	11,071,464	95,050,000
Loans charged-off as uncollectible	(5,914,698)	(7,852,041)	(11,316,363)	(4,630,029)	(8,058,930)	(37,772,061)
Recoveries	56,528	271,705	494,186	164,778	475	987,672
Ending balance	9,045,902	27,986,688	30,901,694	3,894,214	5,676,779	77,505,277
Ending allowance attributable to loans:						
Individually evaluated for impairment	1,156,504	12,888,693	8,561,973	274,210	1,396,269	24,277,649
Collectively evaluated for impairment	7,889,398	15,097,995	22,339,721	3,620,004	4,280,510	53,227,628
Ending allowance	9,045,902	27,986,688	30,901,694	3,894,214	5,676,779	77,505,277
Loans:						
Individually evaluated for impairment	13,090,961	27,480,828	31,015,263	7,761,705	5,050,787	84,399,544
Collectively evaluated for impairment	11,092,780	23,135,823	48,379,369	5,484,036	5,113,175	93,205,183
Total loan balance	$ 24,183,741	$ 50,616,651	$ 79,394,632	$ 13,245,741	$ 10,163,962	$ 177,604,727

	2016					
	Agricultural	Commercial	Services	Manufacturing	Tourism	Total
Allowance for loan losses:						
Beginning balance	$ 1,401,513	$ 4,483,088	$ 10,044,663	$ 1,614,924	$ 1,759,470	$ 19,303,658
Provision charged to provisions	1,416,305	2,175,490	3,272,898	4,432,972	1,252,335	12,550,000
Loans charged-off as uncollectible	(573,980)	(3,505,907)	(4,620,329)	(4,599,375)	(349,120)	(13,648,711)
Recoveries	186,823	274,145	397,504	175,162	1,085	1,034,719
Ending balance	2,430,661	3,426,816	9,094,736	1,623,683	2,663,770	19,239,666
Ending allowance attributable to loans:						
Individually evaluated for impairment	1,563,179	1,199,365	3,723,257	845,447	431,281	7,762,529
Collectively evaluated for impairment	867,482	2,227,451	5,371,479	778,236	2,232,489	11,477,137
Ending allowance	2,430,661	3,426,816	9,094,736	1,623,683	2,663,770	19,239,666
Loans:						
Individually evaluated for impairment	18,668,267	28,959,512	31,902,301	11,784,392	16,969,951	108,284,423
Collectively evaluated for impairment	15,956,867	33,260,565	88,991,106	9,799,712	15,403,970	163,412,220
Total loan balance	$ 34,625,134	$ 62,220,077	$ 120,893,407	$ 21,584,104	$ 32,373,921	$ 271,696,643

8. CAPITAL ASSETS

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	2017			
	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	$ -	$ -	$ 2,735,000
Building and improvements	11,645,936	166,328	-	11,812,264
Furniture and equipment	5,031,259	152,471	(70,669)	5,113,061
Total cost	19,412,195	318,799	(70,669)	19,660,325
Less accumulated depreciation and amortization:				
Building and improvements	(6,215,698)	(292,913)	-	(6,508,611)
Furniture and equipment	(4,748,946)	(121,148)	70,669	(4,799,425)
Total accumulated depreciation and amortization	(10,964,644)	(414,061)	70,669	(11,308,036)
Capital assets, net	$ 8,447,551	$ (95,262)	$ -	$ 8,352,289

	2016			
	Beginning Balance	Additions	Reductions / Reclassifications	Ending Balance
Land	$ 2,735,000	$ -	$ -	$ 2,735,000
Building and improvements	11,596,506	49,430	-	11,645,936
Furniture and equipment	5,114,878	92,915	(176,534)	5,031,259
Total cost	19,446,384	142,345	(176,534)	19,412,195
Less accumulated depreciation and amortization:				
Building and improvements	(5,919,407)	(296,339)	-	(6,215,746)
Furniture and equipment	(4,825,165)	(100,267)	176,534	(4,748,898)
Total accumulated depreciation and amortization	(10,744,572)	(396,606)	176,534	(10,964,644)
Capital assets, net	$ 8,701,812	$ (254,261)	$ -	$ 8,447,551

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 ending June 30, 2018 and 2019 are approximately $149,000 and $75,000, respectively. Rent revenue amounting to approximately $429,000 and $410,000 was recorded as other income in the accompanying 2017 and 2016 statements of revenue, expenses, and changes in net position, respectively.

9. OTHER ASSETS

Other assets as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Other real estate owned, net of allowance for losses of $2,561,176 in 2017 and $3,313,992 in 2016	$ 9,213,129	$ 11,017,543
Deferred issuance costs	-	90,054
Accounts receivable from other Commonwealth component units	84,266	84,266
Loan advances in escrow	4,000,000	-
Other	199,201	179,780
Total	$ 13,496,596	$ 11,371,643

The loan advances in escrow included above are part of a Bank's approved $8 million credit facility for the construction of a tourism sector project. The Bank will make monthly deposits of $500,000 into an escrow account with a senior lender until reaching the total of $8 million. The Loan will carry a floating rate equal to 5% over the prime rate, as determined by Citibank, NA with a floor interest charge of 8% minimum. Interest will be paid monthly and will be based on total amount outstanding using a basis for computation of a 360 days year. The interim loan is due 24 months after the closing date or whenever the use permit is issued, whichever occurs first. The permanent loan is due in 5 years after the closing date with amortization of 25 years, consisting of 47 monthly payments of principal plus interest and escrow and a final balloon payment for the outstanding principal balance plus accrued interest. There will be a 12 months grace period on the payment of principal commencing on the month of the first interest payment. Other terms and conditions were agreed upon among the bank, senior lender and other participating instrumentalities of the Government of

Puerto Rico under this credit facility. At June 30, 2017, the Bank had deposited in the escrow account the amount of $4 million under the terms of this agreement. See Note 23.

10. TIME DEPOSITS

Time deposits of $145,219,125 and $167,395,803 at June 30, 2017 and 2016, 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, 2017 and 2016 amounted to approximately $145,219,000 and $159,407,000, respectively.

Time deposits in denominations of $100,000 or more amounted to approximately $145,024,000 and $167,139,000 at June 30, 2017 and 2016, respectively.

The principal depositors of time deposits of the Bank and representing approximately 85% of the total time deposits balance at June 30, 2017 were the following: (1) Puerto Rico Housing Finance Authority, $65.7 million or 45%, (2) Government Development Bank or GDB, $35.4 million or 25%, (3) Puerto Rico Industrial Development Company, $14.8 million or 10%, (4) Company for National Parks, $6.9 or 5%.

Proposal for Voluntary Restructuring and Final Payment of Creditors - Management of the Bank has recognized that is unable to pay its financial obligations in full and it needs debt relief. Subsequent to June 30, 2017, the Bank commenced to reach creditors proposing a voluntary restructuring agreement and final payment of deposits. The proposal, which is based on certain items of the GDB's RSA discussed in Note 5, includes the payment of 55% of the principal amount of deposits as of the closing date for a term of 20 years accruing interest at 3.5% fixed rate computed annually. The annual payments of principal and interests would be made each year. In addition, the proposal offers an advance payment of principal and interest for the amount that would accrue in the first three years of the proposal and would begin to pay regular payments in the third year of the 20 years restructuring agreement period. The Bank would subscribe a promissory note in favor of creditors with the above terms and conditions, among others. The voluntary restructuring agreement would constitute the final payment of the amounts deposited by creditors at the Bank. See Note 3.

11. 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. There were no securities sold under agreements to repurchase outstanding as of June 30, 2017. As of June 30, 2016, the carrying amount of the securities sold under the agreements to repurchase was nil, the average amount outstanding during that year was $9,324,000, the maximum amount outstanding at any month-end was $24,406,000. Also, at June 30, 2016 the weighted average interest rate for the year and the weighted average interest rate at year-end were 0.56% and 0%, respectively.

The activity for securities sold under agreements to repurchase during 2016 was as follows:

	2016				
	Beginning Blance	**Additions**	**Reductions**	**Ending Balance**	**Amounts Due Within One Year**
Securities sold under agreement to repurchase	$ 28,756,000	$ 85,186,000	$ (113,942,000)	$ -	$ -

12. PROMISSORY NOTES AND NOTE PAYABLE

The note payable with an outstanding balance of $7,239,037 and $7,833,336 as of June 30, 2017 and 2016, respectively, 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 $1,061,000 including interest. The Bank has complied with the terms and conditions of this note payable with GDB and it is management intention to continue making debt service payments for this loan until fulfillment of this obligation. There were no promissory notes outstanding as of June 30, 2017 and 2016.

Note payable and promissory notes activity for the years ended June 30, 2017 and 2016 was as follows:

	2017				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Due Within One Year**
Note payable	$ 7,833,336	$ -	$ (594,299)	$ 7,239,037	$ 629,957
Total note payable	$ 7,833,336	$ -	$ (594,299)	$ 7,239,037	$ 629,957

	2016				
	Beginning Blance	**Additions**	**Reductions**	**Ending Balance**	**Due Within One Year**
Promisory Notes	$ 411,997,916	$ -	$ (411,997,916)	$ -	$ -
Note payable	8,393,996	-	(560,660)	7,833,336	594,299
Total promisory notes and note payable	$ 420,391,912	$ -	$ (412,558,576)	$ 7,833,336	$ 594,299

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

Years ending June 30,	Principal	Interest
2018	$ 629,957	$ 434,342
2019	667,755	396,545
2020	707,820	356,480
2021	750,289	314,010
2022	795,306	268,993
2023 - 2026	3,687,910	569,288
Total	$ 7,239,037	$ 2,339,658

13. OTHER LIABILITIES

The activity for the other noncurrent liabilities during 2017 and 2016 was as follows:

	2017			
	Beginning Balance	Provision	Reductions	Ending Balance
Compensated absences	$ 1,751,721	$ 90,000	$ (580,799)	$ 1,260,922
Legal Claims	417,055	-	(1,000)	416,055
Reserve for loan guarantees	3,591,012	-	-	3,591,012
Early retirement program liability	-	5,546,982	(517,430)	5,029,552
Total	$ 5,759,788	$ 5,636,982	$ (1,099,229)	$ 10,297,541

	2016			
	Beginning Balance	Provision	Reductions	Ending Balance
Compensated absences	$ 1,812,761	$ 330,000	$ (391,040)	$ 1,751,721
Legal Claims	622,389	-	(205,334)	417,055
Reserve for loan guarantees	3,617,331	-	(26,319)	3,591,012
Total	$ 6,052,481	$ 330,000	$ (622,693)	$ 5,759,788

14. NET POSITION

The Bank's net position invested in capital assets and restricted as of June 30, 2017 and 2016 are composed of the following:

		2017		2016
Invested in capital assets, net of related debt:				
Capital assets	$	19,660,324	$	19,412,195
Accumulated depreciation and amortization		(11,308,036)		(10,964,644)
Related GDB note payable		(7,239,037)		(7,833,336)
Total	$	1,113,251	$	614,215

		2017		2016
Restricted for special loan programs:				
Economic Development Administration	$	3,836,563	$	4,044,510
Day Care Centers Loan Fund		4,576,687		4,796,262
State Small Business Credit Initiative		-		15,885,728
Total	$	8,413,250	$	24,726,500

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 because 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 interests of loans granted under the program are deposited in the fund to be used to disburse new qualified loans. At June 30, 2017 and 2016, the outstanding principal of loans granted under the terms of EDA Revolving loan Fund amounted to $2,898,499 and $2,744,872, respectively, and is 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 A133 or to compliance audits by EDA. The latter has the authority to determine liabilities as well as to limit, suspend, or terminate the federal assistance.

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

The Commonwealth approved Law No. 212 of August 29, 2000, as amended, which Creates the Day Care Centers Loan Fund, for the purpose of financing the development of day care centers for children, multiple activity centers for elderly persons, and long-term Care institutions. The Bank is responsible for the administration of the fund. At June 30, 2017 and 2016, the outstanding principal of loans granted under the terms of the Day Care Centers Loan Fund amounted to $2,021,413 and $2,219,619, 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 would use $12.5 million of its allocated SSBC funds to support the existing Loan Participation Program and $2 million to support the existing Venture Capital Program. As of June 30, 2016, the Bank had received the complete allocation, which was recorded as a capital contribution, and had committed $13.5 million under the Loan Participation Program and $1 million under the Venture Capital Program. As of December 31, 2016, the SSBCI program expired and funds were transferred to unrestricted capital, to continue to be used in accordance with the Bank's mission. Net position restricted for the special loans programs as of June 30, 2017 and 2016 consist of the following:

	2017	2016
Cash and due from banks	$ 4,001,032	$ 13,418,498
Venture capital investment	-	1,000,000
Loans and interest receivable, net of allowance for loan losses of $1,021,714 and $261,308 in 2017 and 2016, respectively	3,920,627	10,264,768
Other assets	642,860	1,483,164
Total restricted assets	8,564,519	26,166,430
Accounts payable and other liabilities	151,269	1,439,930
Total restricted net assets	$ 8,413,250	$ 24,726,500

15. INTERAGENCY AGREEMENTS AND RELATED PARTY TRANSACTIONS

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 $2.7 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 30, 2017, 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, 2017 and 2016, the outstanding principal of loans granted under all the Economic Development and Commerce Department loans and loan guarantee programs amounted to $2,336,711 and $2,453,546, respectively, of which $2,336,711 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, 2017 and 2016, the outstanding principal of loans granted under this fund amounted to $2,414,868 and $6,034,897, 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, 2017 and 2016, the outstanding principal of all loans granted under the Agricultural Guarantee Loan Fund program amounted to $2,290,310 and $2,552,518, respectively, of which $2,230,561 and $2,480,535, 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, 2017 and 2016, the outstanding principal of loans granted under the program amounted to $88,501 and $103,914, respectively, of which $87,941 and $103,914, 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 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, 2017 and 2016, there was no pending or threatened litigation under such programs.

16. COMMITMENTS AND CONTINGENCIES

Litigation

At June 30, 2017, 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, 2017 and 2016, the outstanding guaranteed principal of loans granted under the program amounted to $3,000,000.

The Bank has recorded a reserve for loan guarantees amounting to approximately $1,889,000 at June 30, 2017 and 2016, 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 22 on related-party transactions.

From the reserve for loan guarantees, which as of June 30, 2017 has a balance of $3,591,000, 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, 2017, $5.5 million has 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 million in guarantees outstanding as of June 30, 2017. See also Note 22.

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.

17. 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.

18. RETIREMENT PLANS

Plan Description

The Employees’ Retirement System of the Government of the Commonwealth of Puerto Rico (ERS) is a trust created by the Legislature of the Commonwealth of Puerto Rico (the Commonwealth) pursuant to Act No. 447 on May 15, 1951 (Act No. 447), as amended, to provide pension and other benefits to retired employees of the Commonwealth, its public corporations and municipalities of Puerto Rico. The ERS’ governance is vested in an eleven-member Board of Trustees (the Board), which sets policy and oversees the operations consistent with applicable laws. Pursuant to Act No. 106 of August 23, 2017, the Board was substituted by the Retirement Board of the Government of Puerto Rico. The ERS is a cost-sharing, multiple-employer pension plan administered by the Puerto Rico Government and Judiciary Retirement System Administration (the Administration).

ERS administers different benefit structures pursuant to Act No. 447, as amended, including a cost sharing, multi-employer, defined benefit program, a defined contribution program (System 2000 program) and a contributory hybrid program. Benefit provisions vary depending on member’s date of hire. Substantially all full-time employees of the Commonwealth and its instrumentalities (73

Commonwealth agencies, 78 municipalities, and 55 public corporations, including ERS) are covered by ERS. Membership is mandatory for all regular, appointed, and temporary employees of the Commonwealth and the Commonwealth's public corporation at the date of employment. Membership is optional for the Governor of the Commonwealth, Commonwealth secretaries, head of public agencies, and instrumentalities, among others.

The benefits provided to members of ERS are established by Commonwealth law and may be amended only by the Legislature with the Governor's approval. Act No. 3 of April 4, 2013 (Act No. 3 of 2013), in conjunction with other recent funding and design changes, provided for a comprehensive reform of ERS.

Certain provisions are different for the three groups of members who entered ERS prior to July 1, 2013 as described below:

- Members of Act No. 447 are generally those members hired before April 1, 1990 (contributory, defined benefit program).
- Members of Act No. 1 of February 16, 1990 (Act No. 1) are generally those members hired on or after April 1, 1990 and on or before December 31, 1999 (contributory, defined benefit program).
- Members of Act No. 305 of September 24, 1999 (Act No. 305 or System 2000) are generally those members hired on or after January 1, 2000 and on or before June 30, 2013 (defined contribution program).

All regular employees hired for the first time on or after July 1, 2013, and former employees who participated in the defined benefit program and the System 2000 program, and were rehired on or after July 1, 2013, become members of the Contributory Hybrid Program as a condition to their employment. In addition, employees who at June 30, 2013, were participants of previous programs became part of the Contributory Hybrid Program on July 1, 2013.

The assets of the defined benefit program, the defined contribution program and the Contributory Hybrid Program are pooled and invested by ERS. Future benefit payments will be paid from the same pool of assets.

This summary of ERS plan provisions is intended to describe the essential features of the plan. All eligibility requirements and benefit amounts should be determined in strict accordance with the plan document itself.

Service Retirements

Eligibility for Act No. 447 Members: Act No. 447 members who were eligible to retire as of June 30, 2013 would continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 447 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 58 with 10 years of credited service, (3) any age with 30 years of credited service, (4) for Public Officers in High Risk Positions (the Commonwealth Police and Firefighter Corps, the Municipal Police and Firefighter Corps and the Custody Office Corps), attainment of age 50 with 25 years of credited service, and (5) for Mayors of municipalities, attainment of age 50 with 8 years of credited service as a Mayor. In addition, Act No. 447 members who would attain 30 years of credited service by December 31, 2013 would be eligible to retire at any time.

Act No. 447 members who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire upon attainment of the retirement eligibility age shown in the table below with 10 years of credited service.

Date of birth	Attained age as of June 30, 2013	Retirement eligibility age
July 1, 1957 or later	55 or less	61
July 1, 1956 to June 30, 1957	56	60
Before July 1, 1956	57 and up	59

In addition to the requirements in the table above, Act No. 447 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 and did not attain 30 years of credited service by December 31, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

Eligibility for Act No. 1 Members: Act No. 1 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, Act No. 1 members could retire upon (1) attainment of age 55 with 25 years of credited service, (2) attainment of age 65 with 10 years of credited service, (3) for Public Officers in High Risk Positions, any age with 30 years of credited service, and (4) for Mayors, attainment of age 50 with 8 years of credited service as a Mayor.

Act No. 1 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 65 with 10 years of credited service. In addition, Act No. 1 Public Officers in High Risk Positions who were not eligible to retire as of June 30, 2013 are eligible to retire directly from active service upon the attainment of age 55 with 30 years of credited service.

Eligibility for System 2000 Members: System 2000 members who were eligible to retire as of June 30, 2013 continue to be eligible to retire at any time. Prior to July 1, 2013, System 2000 members could retire upon attainment of age 55 for Public Officers in High Risk Positions and attainment of age 60 otherwise.

System 2000 members who were not eligible to retire as of June 30, 2013 are eligible to retire upon attainment of age 55 for Public Officers in High Risk Positions and upon attainment of the retirement eligibility age shown in the table below otherwise.

Date of birth	Attained age as of June 30, 2013	Retirement elegibility age
July 1, 1957 or later	55 or less	65
July 1, 1956 to June 30, 1957	56	64
July 1, 1955 to June 30, 1956	57	63
July 1, 1954 to June 30, 1955	58	62
Before July 1, 1954	59 and up	61

Eligibility for Members Hired after June 30, 2013: Attainment of age 58 if a Public Officer in a High-Risk Position and attainment of age 67 otherwise.

Service Retirement Annuity Benefits

An annuity payable for the lifetime of the member equal to the annuitized value of the balance in the hybrid contribution account at the time of retirement, plus, for Act No. 447 and Act No. 1 members, the accrued benefit determined as of June 30, 2013. If the balance in the hybrid contribution account is $10,000 or less, it should be paid as a lump sum instead of as an annuity.

Accrued Benefit as of June 30, 2013 for Act No. 447 Members: The accrued benefit as of June 30, 2013 shall be determined based on the average compensation, as defined, for Act No. 447 members, the years of *credited* service, and the attained age of the member all as of June 30, 2013. For Act No. 447 Mayors, the highest compensation, as defined, as a Mayor is determined as of June 30, 2013.

If the Act No. 447 member had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is recalculated at the Social Security Retirement Age (SSRA), as defined, as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 65% (75% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600.

If the Act No. 447 member had less than 30 years of credited service as of June 30, 2013, and attains 30 years of credited service by December 31, 2013, the accrued benefit equals 55% of average compensation if the member was under age 55 as of June 30, 2013 or 60% of average compensation if the member was at least age 55 as of June 30, 2013. For participants selecting the Coordination Plan, the benefit is recalculated at SSRA as 1.5% of average compensation up to $6,600 multiplied by years of credited service, up to 30 years, plus 55% (60% if member was at least age 55 as of June 30, 2013) of average compensation in excess of $6,600. Member contributions received from Act No. 447 members eligible for this transitory benefit during the period beginning July 1, 2013 and ending upon the attainment of 30 years of credited service are considered pre- July 1, 2013 contributions; the contributions to the hybrid contribution account begin after the member attains 30 years of credited service.

If the Act No. 447 member had less than 30 years of credited service as of December 31, 2013, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service up to 20 years, plus 2% of average compensation multiplied by years of credited service in excess of 20 years. Maximum benefit is 75% of average compensation. Except for Commonwealth Police and Commonwealth Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58. For participants selecting the Coordination Plan, the basic benefit is recalculated at SSRA as 1% of average compensation up to $6,600 multiplied by years of credited service up to 20 years, plus 1.5% of average compensation up to $6,600 multiplied by years of credited service in excess of 20 years, plus 1.5% of average compensation in excess of $6,600 multiplied by years of credited service up to 20 years, plus 2.0% of average compensation in excess of $6,600 multiplied by years of credited service in excess of 20 years. Except for Police and Firefighters, the benefit is actuarially reduced for each year payment commences prior to age 58.

For Act No. 447, Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation, as defined, as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non- Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

Accrued Benefit as of June 30, 2013 for Act No. 1 Members: The accrued benefit as of June 30, 2013 is determined based on the average compensation for Act No. 1 members, the years of credited service, and the attained age of the member all as of June 30, 2013. For Act No. 1 Mayors, the highest compensation as a Mayor is determined as of June 30, 2013.

If the Act No. 1 is a police officer or firefighter member that had at least 30 years of credited service as of June 30, 2013, the accrued benefit equals 65% of average compensation if the member was under age 55 as of June 30, 2013 or 75% of average compensation if the member was at least age 55 as of June 30, 2013.

For all other Act No. 1 members, the accrued benefit equals 1.5% of average compensation multiplied by years of credited service. The benefit is actuarially reduced for each year payment commences prior to age 65.

For Act No. 1 Mayors with at least 8 years of credited service as a Mayor, the accrued benefit will not be less than 5% of highest compensation as a Mayor for each year of credited service as a Mayor up to 10 years, plus 1.5% of highest compensation as Mayor for each year of non-Mayoral credited service up to 20 years, plus 2.0% of highest compensation as Mayor for each year of non-Mayoral credited service in excess of 20 years. Non- Mayoral credited service includes service earned as a Mayor in excess of 10 years. Maximum benefit is 90% of highest compensation as a Mayor.

Compulsory Retirement

All Act No. 447 and Act No. 1 Public Officers in High Risk Positions must retire upon attainment of age 58 and 30 years of credited service. A two-year extension may be requested by the member from the Superintendent of the Puerto Rico Police, the Chief of the Firefighter Corps, or supervising authority as applicable.

Contributions

The contribution requirement to ERS is established by law and is not actuarially determined.

Member Contributions: Effective July 1, 2013, contributions by members are 10% of compensation. However, for Act No. 447 members who selected the Coordination Plan, the member contributions are 7% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2013 2014 fiscal year and 8.5% of compensation up to $6,600 plus 10% of compensation in excess of $6,600 during the 2014 2015 fiscal year. Members may voluntarily make additional contributions to their hybrid contribution account.

Employer Contributions (Article 2 116, as Amended by Law No. 116 of 2010 and Act No. 3 of 2013): Prior to July 1, 2011, employer contributions were 9.275% of compensation. Effective July 1, 2011, employer contributions are 10.275% of compensation. For the next four fiscal years effective July 1, 2012, employer contributions will increase annually by 1% of compensation. For the next five fiscal years, employer contributions will increase annually by 1.25% of compensation, reaching an employer contribution rate of 20.525% of compensation effective July 1, 2020.

Supplemental Contributions from the Commonwealth's General Fund, Certain Public Corporations, and Municipalities (Act No. 3 of 2013): Effective July 1, 2013, ERS will receive a supplemental contribution of $2,000 (of which $800 corresponds to the pension plan and $1,200 corresponds to the post employment healthcare benefits plan) each year for each pensioner (including beneficiaries receiving survivor benefits) that was previously benefitting an Act No. 447 or Act No. 1 member while an active employee. This supplemental contribution will be paid by the Commonwealth's General Fund for former government and certain public corporations without their own treasuries or by certain public corporations with their own treasuries or municipalities for their former employees.

Additional Uniform Contribution (Act No. 32 of 2013, as Amended): The additional uniform contribution will be certified by the external actuary of ERS each fiscal year from fiscal year 2014-2015 through 2032-2033 as necessary to avoid the projected gross assets of ERS, falling below $1 billion during any subsequent fiscal year. The Additional Uniform Contribution is to be paid by the Commonwealth's General Fund, public corporations with their own treasuries, and municipalities. The additional uniform contribution determined for fiscal years 2014, 2015, and 2016 was $120 million. The additional uniform contribution determined for fiscal year 2017 is $596 million, payable at the end of the fiscal year.

Actuarial Methods and Assumptions

The total pension liability as of June 30, 2017 (the measurement date) was determined by an actuarial valuation as of July 1, 2016 that was rolled forward to June 30, 2017 and assuming no gains or losses. This actuarial valuation used the following actuarial methods and assumptions, applied to all periods in the measurement:

Actuarial cost method	Entry age normal
Asset-valuation method	Market value of assets
Actuarial assumptions:	
Inflation rate	2.50%
Salary increases	3.00% per year. No compensation increases are assumed until July 1, 2017 as a result of Act No. 66 and the current general economy.

The mortality tables used in the June 30, 2017 actuarial valuation were as follows:

Pre-Retirement Mortality: For ERS general employees not covered under Act No. 127, RP-2014 Employee Mortality Rates for males and females are adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year and projected forward using MP-2015 on generational basis. For ERS members covered under Act No. 127, RP-2014 Employee Mortality Rates are assumed with blue collar adjustments for males and females adjusted to reflect Mortality Improvement Scale MP-2015 from the 2006 base year and projected forward using MP-2015 on generational basis. As generational tables, they reflect mortality improvements both before and after the measurement date. For ERS, 100% of deaths while in active service are assumed to be occupational only for members covered under Act No. 127.

Post-Retirement Healthy Mortality: Rates which vary by gender are assumed for healthy retirees and beneficiaries based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 92% of the rates from the UP-1994 Mortality Table for Males and 95% of the rates from the UP-1994 Mortality Table for Females, both projected from 1994 to 2010 using Scale AA. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

*Post-Retirement Disabled Mortality: R*ates which vary by gender are assumed for disabled retirees based on a study of the plan's experience from 2007 to 2012 and updated expectations regarding future mortality improvement. The 2010 base rates are equal to 105% of the rates from the UP- 1994 Mortality Table for Males and 115% of the rates from the UP-1994 Mortality Table for Females. The base rates are projected using Mortality Improvement Scale MP-2015 on a generational basis. As a generational table, it reflects mortality improvements both before and after the measurement date.

Most other demographic assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study using data as of June 30, 2003, June 30, 2005 and June 30, 2007.

The long-term expected rate of return on pension benefit investments was determined in accordance with the portfolio asset allocation of the portfolio that was adopted by the ERS' boards of the Retirement Systems during December 2013 and the actuary's capital market assumptions as of June 30, 2017. In addition, the assumption reflects that loans to members comprise approximately 20% of the portfolio and, have an approximate return of 9.1% with no volatility. The long-term expected rate of return on pension benefits investments of 6.55% as of June 30,2017 is equal to the highest debt service of the senior pension funding bonds payable which range from 5.85% per annum to 6.55% per annum.

The pension plan's policy in regard to allocation of invested assets is established and may be amended by the corresponding Retirement System's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a positive impact on each of the Retirement Systems' financial condition for the benefits provided through the pension programs.

The long-term expected rates of return on pension benefits investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The asset basis for the date of depletion projection is the Systems' fiduciary net position (the gross assets plus deferred outflows of resources less the gross liabilities, including the senior pension funding bonds payable, less deferred inflows of resources). On this basis, ERS's fiduciary net position was projected to be exhausted in fiscal year 2017.

The fiduciary net position of ERS was not projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the tax-free municipal bond index (Bond Buyer General Obligation 20-Bond Municipal Bond Index) was applied to all periods of projected benefits payments to determine the total pension liability. The discount rate for ERS was 3.80% and 4.29% as of June 30, 2017 and July 1, 2016, respectively.

The date of depletion projection of the actuarial report does not include any amounts from the additional uniform contribution required by Act No. 32 because of actual fiscal and budgetary financial difficulties, continued budget deficits and liquidity risks of the Commonwealth and the municipalities, and in the event that their financial condition does not improve in the near term.

Additional information on the System will be provided in its financial statements for the year ended June 30, 2017. 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.

Early Retirement Program

The Bank extended to its employee's a voluntary early retirement program. During the year ended June 30, 2017, a program was approved by the Bank's Board of Directors based on provisions established on Act No. 211, which was enacted December 8, 2015. Act No. 211 provides that eligible employees may retire from employment with the Bank in exchange for an early pension and other benefits. Act No. 211 only applied to employees with twenty years or more participating in the Employees' Retirement System of the Government of Puerto Rico and its Instrumentalities ("ERS") created pursuant to Act No. 447 of 1951 and have not reached 61 years of age.

The Act No. 211 provides that the employee will receive an annuity equivalent to 60% of the average compensation, as defined, as of December 31, 2015 and until the participating member attained 61 years old, which is the age the employee will become part of the Retirement System. The Bank is responsible for the payment of the employer contribution to the Social Security and Medicare, based on the 60% of the average compensation as of December 31, 2015. Also, is responsible for the payment of the related employee and employer contributions to the Retirement System based on the 100% of average salary as of December 31, 2015, for amounts which guarantees a 50% minimum compensation to eligible employee of its average compensation as of June 30, 2013. The participating employee will also receive the benefits of health insurance for a period not more than two years, and until the employee reaches 61 years old.

During fiscal year 2017, total cost related to this early termination benefits amounted to approximately $5.5 million. As of June 30, 2017, the total liability related to these termination benefits was approximately $5 million. Payments of such voluntary termination plans are expected to be made until June 30, 2027. The Bank's contributions to the early retirement programs during the year ended June 30, 2017 amounted to approximately $0.5 million. The amounts represented 100% for the required contribution for the corresponding year.

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

At June 30, 2017 and 2016, the off-balance-sheet risks consisted of the following:

	2017 (In thousands)	2016 (In thousands)
Financial instruments whose credit is represented by contractual amounts:		
Financial guarantees	$ 3,000	$ 3,000
Commitments to extend credit	$ 19,001	$ 25,317
Commitments to invest in venture capital	$ 10,262	$ 4,175

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 if 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.

20. OTHER NON-INTEREST INCOME

Other non-interest income for the years ended June 30, 2017 and 2016 consists of the following:

	2017	2016
Rental income (Note 8)	$ 429,440	$ 409,709
Loss on sale of foreclosed assets	(205,984)	(249,023)
Recoveries from loan guarantees	14,453	3,549
Miscellaneous income	360,080	349,304
Total	$ 597,989	$ 513,539

21. OTHER NON-INTEREST EXPENSES

Other non-interest expenses for the years ended June 30, 2017 and 2016 consist of the following:

	2017	2016
Electricity	$ 383,767	$ 384,016
Contribution to General Fund	297,977	322,089
Repairs and maintenance	294,230	247,066
Miscellaneous	344,448	223,935
Uncollectible loans expenses	263,015	376,293
Insurance	195,304	176,798
Water	58,289	73,232
Dues and Subscriptions	50,145	50,893
Telephone	41,026	35,536
Office Supplies	35,780	43,915
Reimbursement of expenses to employees	28,547	49,828
Postage	19,941	21,597
Official meetings	5,062	147
Vehicles	4,309	8,086
Employees trainings and seminars	3,556	4,221
Investment Operations	2,919	8,497
Budget reserve provision	-	171,375
Subtotal	2,028,315	2,197,524
Provision for losses on foreclosed assets	1,140,000	740,000
Total	$ 3,168,315	$ 2,937,524

22. 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 an allowance 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 16, during 2011, $7 million from the allowance 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. There were no disbursements under these programs, nor reclassifications from the allowance account to capital contribution during 2017 and 2016. In addition, during 2016 the Bank disbursed $26,319 (none in 2017), to pay loan guarantees to commercial banks under the Loan Guarantee Program created by the above-mentioned 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. No amount was received for 2017 and 2016.

23. SUBSEQUENT EVENTS

Subsequent events were evaluated through January 11, 2019, to determine if any such events should either be recognized or disclosed in the 2017 basic financial statements. Management believes that the subsequent events disclosed below are intrinsically related to the financial statements of the Bank. These might have been disclosed elsewhere in these financial statements, but management believes they require specific mentioning based on their relevance and materiality as a whole.

Sale of loans and modification of tourist related sector loan

In August 2017, the Bank sold for $29 million various individual loans and group of loans with a carrying amount of approximately $56 million at June 30, 2017. Also, on September 10, 2018, the Bank sold for $22 million various loans, charge-off loans and foreclosed assets with a carrying amount of approximately $52 million at June 30, 2017. Management recognized in the 2017 financial statements the effects of these subsequent events based on that a loss must be accrued if the following conditions are met (i) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired, or a liability had been incurred at the date of the financial statements (ii) It is implicit in this condition that it should be probable that one or more future events will occur confirming the fact of the loss (iii) the amount of loss can be reasonably estimated.

As discussed in Note 9, on November 11, 2016, the Bank and a debtor had subscribed a credit agreement through which a loan for $8 million was granted. On August 24, 2017, a first amendment had been agreed among the parties to change the name of the debtor. On October 25, 2018, the Bank and the renamed debtor subscribed a second amendment of the loan agreement and loan documents to modify (i) the dates of the first and last disbursement of funds deposited in the reserve account held by the Bank and (ii) to extend the date of the loan conversion from interim to permanent loan status and (iii) to increase the total amount of the budget of the tourism sector related project. The loan will continue to be evidenced by a promissory note that includes the form and amount of repayment of the loan according to the terms and conditions of the loan agreement. Under no circumstances should the first loan disbursement be made later than June 30, 2018 and in all cases the loan must be disbursed in full no later than December 31, 2018, after which the Bank will be required to disburse the loan or principal of the loan will be automatically reduced to the amount disbursed. As of December 31, 2019 (date of conversion), a 12-month moratorium will be granted on the principal payment, where the debtor will pay interest only. After the moratorium, forty-seven principal payments based on an amortization of twenty-five years will be made plus interest for the principal owed and any reserve, if applicable, and a final payment for the balance of the principal plus interest at the due date.

Act for Agency Consolidations and Reduction or Elimination of Government Services

On December 18, 2017, Act No. 122 was approved to create the Law for the New Government of Puerto Rico with the sole purpose to empower the Governor to transfer, consolidate or reorganize agencies, programs or services to create new and more efficient governmental structures and agencies. Under this law, the Governor presented a new fiscal plan on January 18, 2018 which was finally approved by the Oversight Board on October 23, 2018. This new fiscal plan defines a new government model which includes the implementation of new fiscal measures that will reduce costs while maintaining or improving the quality of important services by right-sizing the Government through agency consolidations and reduction and/or elimination of government services. Furthermore, on June 20, 2018 on a letter addressed to the Bank, the Government of Puerto Rico confirmed the intentions for consolidating Puerto Rico Housing Finance Authority, a component unit of GDB, and the Bank. The letter states that the merger will create one public corporation with the ability to handle all financing products available, extending the services offered to the private sector if those services promote the creation and development of labor and businesses. See Note 3.

Approval of Fiscal Plans by Oversight Board

The Oversight Board also approved and certified the fiscal plan of the Commonwealth and certain other governmental entities (the "Fiscal Plan") that had the objective to achieve a turnaround without new federal funding. The planned changes were ambitious and required unprecedented levels of effort by the Commonwealth. The Fiscal Plan was revised and certified by the Oversight Board on March 31, 2017 (the "Revised Fiscal Plan"). In September 2017, just months after the certification of the March 2017 Fiscal Plan, Hurricanes Irma and Maria struck the Island, causing great devastation and fundamentally altering Puerto Rico's macroeconomic reality. The damage inflicted on Puerto Rico by Hurricane Maria required that the March 2017 Certified Fiscal Plan be revised. Therefore, on October 31, 2017, the Oversight Board formally requested that the Government submit a revised fiscal plan for the Commonwealth. On May 30, 2018, the Oversight Board determined that the fiscal plan complied with the requirements of PROMESA, and it was certified as the New Fiscal Plan.

Government Development Bank's Fiscal Plan, Winding Down of Operations and RSA

On March 23, 2018, the GDB's operational wind-down was completed, with all fundamental operations having ceased o transferred to other Commonwealth's instrumentalities and workforce restructuring completed with minimal human resources remaining to conclude legal and operational matters through fiscal year 2019.

On April 20, 2018, the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board") created under the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA") approved and certified the GDB's new fiscal plan amended due to impact of hurricanes Irma y Maria. The GDB will continue to exist as a legal entity with substantially all employees separating or transferring from the GDB. The plan reflects operational activity limited to resolving certain outstanding legal matters and pursuing resolution strategies of certain public entity loans with any proceeds assigned to the Recovery Authority, pursuant to the terms of a Restructuring Support Agreement (RSA). The RSA is expected to be consummated pursuant to a consensual restructuring of the GDB's long-term obligations through a PROMESA's Title VI Qualifying Modification.

On November 29, 2018, AAFAF and GDB announced the consummation of the Qualifying Modification for GDB under Title VI of PROMESA. The GDB Debt Recovery Authority (GDB Authority), a newly formed statutory public trust and government instrumentality, created pursuant to the GDB Restructuring Act enacted by the Legislative Assembly of the Commonwealth of Puerto Rico, issued approximately $2.6 billion GDB debt recovery bonds (the New Bonds) to holders of participating bond claims of the GDB, with each holder receiving $550 of the New Bonds for each $1,000 of participating bond claims of GDB they previously held. The New Bonds bear interest at 7.5% per annum, payable semi-annually in arrear, are due on 2040 and are secured solely by a first priority statutory lien on the restructuring property assets. The GDB Authority was created for the purpose of receiving certain restructuring property assets, as defined, from GDB, issuing the New Bonds and to facilitate the restructuring of certain of GDB's indebtedness pursuant to a Qualifying Modification under Title VI of PROMESA. The Qualifying Modification was certified by the Oversight Board and the U.S. District Court of Puerto Rico, as also required under PROMESA. See Note 5.

Other Matter

On September 6 and 20, 2017 hurricanes Irma and Maria, respectively impacted Puerto Rico causing catastrophic damage to the island with an estimated $94 billion in damages.

***

		2017
Proportion of the Net Pension Liability		0.11897%
Proportionate Share of the Net Pension Liability	$	44,849,232
Covered - Employee Payroll	$	3,978,811
Proportionate Share of the Net Pension Liability as Percentage of Covered- Employee Payroll		11.27%
Plan's Fiduciary Net Position as a Percentage of the Net Pension Liability		3.47%

Notes to Schedule:

Benefit Changes: In 2015, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary. Beginning July 1, 2017, the pension benefits were paid through pay-as-you-go method.

Changes Assumptions: In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected retirement ages of general employees.
Fiscal year 2017 was the first year of implementation, therefore only one year is shown.
The amounts presented have a measurement date of July 1, 2015.
Data reference: Employees' Retirement System of the Commonwealth of Puerto Rico Actuarial Valuation Report.

REQUIRED SUPPLEMENTARY INFORMATION UNDER OMB UNIFORM GUIDANCE

LOAN PROGRAM

The Bank participates in the Economic Adjustment Assistance Program (EDA). The changes in the outstanding balance of loans for the year ended June 30, 2017, follow:

Grant Number	Unpaid Principal Balance of Loans at June 30, 2016	Loans Disbursements	Principal Amount Charged Off	Principal Repayments	Unpaid Principal Balance of Loans at June 30,2017
39-02981	$ 1,030,465	$ 203,309	$ -	$ (282,964)	$ 950,810
39-02222	273,541	462,803	(22,677)	(336,068)	377,599
39-03111	1,440,545	576,439	(15,301)	(431,914)	1,569,770
Totals	$ 2,744,551	$ 1,242,551	$ (37,978)	$ (1,050,946)	$ 2,898,179

1. The accompanying Schedule of Federal Awards ("the Schedule") includes the federal grant activity of the Economic Development Bank for Puerto Rico ("the Bank"). Federal awards expended includes the balance of revolving loan fund ("RLF") loans outstanding at the end of the fiscal year, the cash and investment balance in the RLF at the end of the fiscal year and the unpaid principal of loans written off during the fiscal year. Only the federal share of the RLF was used in the determination as follow:

Description	Total Federal Award June 30,2017
Balance RLF loans outstanding	$ 2,898,499
Cash Balance (Acc. 103000)	1,441,338
Unpaid principal of loans written off during the year	37,978
Total	$ 4,377,815
	58.82%
Total federal expenditures under RLF	**2,575,031**

The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget ("OMB") Uniform Guidance. Therefore, some amounts in the Schedule may differ from amounts presented in, or used in, the preparation of basic financial statements.

Because the Schedule presents only a selected portion of the activities of the Bank, it is not intended to and does not present the financial position, change in net position and cash flows of the Bank.

2. Federal Grantor/Program Title and CFDA number

Federal Grantor / Program Title	CFDA Number	Expenditures
U.S Department of Commerce -		
Economic Adjustment Assistance Program	11.307	$ 2,575,031

REPORTS REQUIRED UNDER OMB UNIFORM GUIDANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Economic Development Bank for Puerto Rico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Economic Development Bank for Puerto Rico ("the Bank"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Bank's basic financial statements and have issued our unmodified report thereon dated January 11, 2019. Our report includes that the accompanying financial statements have been prepared assuming that the Bank will continue as going concern. As discussed in Note 3 to the financial statements as of June 30, 2017, and subsequently, the financial condition and liquidity of the Bank and Commonwealth have deteriorated. Also, as discussed in Note 3, the Bank has stated that substantial doubt exists about its ability to continue as going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Bank's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (CONTINUED)*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Bank's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

San Juan, PR
January 11, 2019

Llavona Casas, CPA PSC

Stamp No. E-3545239
was affixed to the original.

LLAVONA - CASAS, CPA PSC
License Number 226
Expires on December 1, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE

To the Board of Directors of
Economic Development Bank for Puerto Rico

Report on Compliance for Each Major Federal Program

We have audited the Economic Development Bank for Puerto Rico ("the Bank") compliance with the types of compliance requirements described in the *OMB Uniform Guidance* that could have a direct and material effect on each Bank's major federal programs for the year ended June 30, 2017. The Bank's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance each of Bank's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 US Code of Federal Regulations Part 200, Uniform administrative requirements, Cost principles and Audit requirements for federal awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Bank's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Bank's compliance.

Opinion on Each Major Federal Program

In our opinion, the Bank complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB UNIFORM GUIDANCE (CONTINUED)

Report on Internal Control over Compliance

Management of the Bank is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bank's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *OMB Uniform Guidance*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Bank's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the *OMB Uniform Guidance*. Accordingly, this report is not suitable for any other purpose.

San Juan, PR
January 11, 2019

Llavona Casas, CPA PSC

Stamp No. E-3545240
Was affixed to the original

LLAVONA- CASAS, CPA PSC
License Number 226
Expires on December 1,2021

Part I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? _____ yes __X___ no
- Material weakness identified? _____ yes __X__ none reported

Noncompliance that is material to financial statements noted? _____ yes __X__ no

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? _____ yes __X__ no
- Material weakness identified? _____ yes __X___ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Uniform Guidance? ____ yes __X__ no

Identification of Major Programs

Federal Grantor/ Program Title	CFDA Number	Expenditures
US. Department Of Commerce Economic Adjustment Assistance Program	11.307	$ 2,575,031

Dollar threshold used to distinguish between Type A and Type B programs: $750,0000

Auditee qualify as low-risk auditee? __X___ yes _____ no

Section II-Financial Statement Findings

The audit report for the year ended June 30, 2017, dated January 11, 2019 has no financial statement findings.

Section III-Federal Award Findings and Questioned Costs

The audit report for the year ended June 30, 2017, dated January 11, 2019 has no federal award findings.

Section II-Financial Statement Findings

The audit report for the year ended June 30, 2017, dated January 11, 2019 has no financial statement findings.

Section III-Federal Award Findings and Questioned Costs

The audit report for the year ended June 30, 2017, dated January 11, 2019 has no federal award findings.

Finding Reference Number	Finding Description	Finding Current Status
2016-01	The Bank does not have the information to implement the requirements of Statement No. 68 "Governmental Accounting Standard Board, Accounting and Financial Reporting for Pensions", an amendment of GASB Statement No. 27.	Corrected
2016-02	The Bank changed its methodology to calculate its allowance for loan losses. This methodology does not follow Accounting Principles Generally Accepted in the United States of America ("US GAAP") section ASC 310-10 for the specific allowance calculation.	Corrected