STANDARD & POOR'S

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January 27, 2011

Government Development Bank for Puerto Rico

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Government Development Bank for Puerto Rico

Major Rating Factors

Counterparty Credit Rating
BBB/Stable/A-2

Strengths:

- Strong capital ratios
- High-quality loan portfolio
- Large and very liquid securities portfolio
- Demonstrated access to the capital markets

Weaknesses:

- Significant loan exposure to the commonwealth
- Business and geographic concentration
- Very narrow net interest margins (NIMs)

Rationale

Standard & Poor's Ratings Services' ratings on the Government Development Bank for Puerto Rico (GDB) reflect its strong capital ratios, high-quality loan portfolio, large and very liquid securities portfolio, and demonstrated access to the capital markets. However, the ratings also reflect GDB's significant business and geographic concentrations and very narrow NIMs. The rating on GDB also considers the credit rating and outlook on the commonwealth of Puerto Rico (BBB-/Positive/--) given the bank's large loan exposure to the commonwealth and its role as fiscal agent to the commonwealth and its instrumentalities.

Although GDB maintains a high-quality loan portfolio, it has significant loan concentrations. However, credit risk at GDB is relatively low, in our opinion, given that its borrowers are primarily the commonwealth of Puerto Rico, local government agencies, municipalities, and other public entities, the majority of which have investment-grade ratings. Illustrating its strong loan performance, GDB has never experienced a loss on a loan to a public entity. The bank continues to have large loan exposures to the commonwealth, its agencies, and instrumentalities--exposures that could grow given the large increase in available funding following recent large debt issuances. However, many of the bank's loans have been collateralized by specified tax receipts or tax liens, such as sales tax proceeds or pledged property taxes, which significantly mitigates our concerns regarding loan concentrations.

GDB has remained consistently profitable in recent years with annual net income of around $90 million; however, profitability becomes much more volatile when excluding large one-time contributions and transfers. NIMs are very narrow given the attractive loan pricing the bank offers its borrowers, but are acceptable in our opinion on a risk-adjusted basis. We think remaining credit exposures in the Tourism Development Fund are fairly modest relative to the bank's total loan portfolio. We expect GDB to be profitable in fiscal 2011, aided by improving NIMs.

Liquidity is strong, in our view, given the bank's stable deposit base, which is largely generated from municipalities and other public entities, and its high proportion of investment securities relative to total assets. Specifically, the securities portfolio consists primarily of high-quality government agency securities and money-market investments. Finally, GDB's demonstrated ability to access the capital markets at very attractive terms reflects its good financial flexibility, which also supports the ratings.

GDB was created in 1948 as a public corporation of the commonwealth to act as a fiscal agent for the commonwealth and to aid Puerto Rico's economic development. Pursuant to this mandate, the bank acts as a fiscal agent and advisor in connection with all borrowings and bond issues of the commonwealth, its public corporations, municipalities, and instrumentalities. GDB also makes loans to the commonwealth, purchases and guarantees obligations of the commonwealth and related entities, accepts commonwealth deposits, and makes loans to the private sector on a very limited basis. GDB's president and administration are subject to nomination by elected officials, which is typically associated with a gubernatorial election year in Puerto Rico, thereby resulting in occasionally elevated management turnover.

Outlook

The outlook is stable based on our view that credit quality and profitability will improve modestly. Furthermore, we expect GDB to retain the vast majority of its net earnings, which should continue to benefit its capital base. We also expect our ratings on GDB and on the commonwealth to be highly correlated. An increase in our rating on the commonwealth, which is currently one notch below that on GDB, will not necessarily lead to a corresponding rise in our rating on GDB. However, we could lower the rating if GDB's loan exposure to the commonwealth increases materially, if the commonwealth's structural budget deficit reverses its recent positive trend, or if GDB pays a large special dividend--which we do not view as likely. Conversely, we could raise the rating--which we view as less likely--if GDB reduces its loan exposure to the commonwealth or if a much larger proportion of its outstanding loans is collateralized by pledged tax receipts.

Profile: Promoting Fiscal Responsibility

We think GDB maintains a very unique competitive position in its local market, which favorably affects our business-profile assessment. Specifically, GDB is a public corporation and a component unit of the commonwealth of Puerto Rico, created by Act No. 17 of Sept. 23, 1948, as amended. The bank charter provides for its perpetual existence and that no amendment to the charter or to any other law of Puerto Rico shall impair any outstanding obligations or bank commitments. GDB's principal functions are to act as fiscal agent and financial advisor for the commonwealth and its public entities, and to make loans to public entities and private enterprises that will further Puerto Rico's economic development. In its role as fiscal agent, GDB advises the commonwealth and its instrumentalities in connection with all their borrowings, and GDB receives fees for its services, included in noninterest income. GDB is also the Chief Investment Officer for the government of Puerto Rico and as the fiscal manager of Puerto Rico's outstanding debt. GDB's initiatives and its diverse network of subsidiaries and affiliates are aimed at furthering Puerto Rico's socioeconomic development. GDB is exempt from taxation in Puerto Rico, except for excise taxes. GDB's charter allows it to invest in securities issued by any corporate entity engaged in Puerto Rico's economic development, as well as to guarantee loans and other obligations incurred by public and private entities.

In managing the public-sector finances, GDB's responsibilities include:

- Coordinating all bond issues for government corporations;
- Overseeing loans and credit lines to ensure prudent financial engineering, whereby government agencies, corporations, and instrumentalities can execute their development initiatives; and
- Structuring tax-free, private-sector investment options through a GDB affiliate, the Puerto Rico Industrial,

Tourist, Educational, Medical, and Environmental Control Facilities Financing Authority (AFICA).

GDB's subsidiaries include:

- Puerto Rico Housing Finance Authority (product of the merger of the Puerto Rico Housing Bank and Finance Agency, and the Puerto Rico Housing Finance Corp. in February 2002);
- Puerto Rico Development Fund (created in 1977);
- Puerto Rico Capital Fund (created in 1992);
- Puerto Rico Public Finance Corp. (created in 1984);
- Puerto Rico Tourism Development Fund (created in 1993); and
- Jose Berrocal Institute for Economics and Finance (created in 2002).

GDB's affiliates include:

- Puerto Rico Municipal Finance Agency;
- Puerto Rico Infrastructure Financing Authority;
- Puerto Rico Sales Tax Financing Corp. (COFINA);
- Puerto Rico Public Private Partnership Authority;
- Children's Trust Fund; and
- AFICA.

The Puerto Rico Housing Finance Agency is GDB's largest subsidiary and represents approximately 11% of total assets. The Housing Finance Corp. was created in 1977 to provide public and private housing developers with interim and permanent financing through mortgage loans for the construction, improvement, and operation of rental housing for low-to-moderate-income families. The Housing Finance Corp. is authorized by the U.S. Department of Housing and Urban Development to administer the U.S. Housing Section 8 program in Puerto Rico and to act as an approved mortgagee for multifamily, rental units, and single-family homes. Although legally separate, the subsidiaries were created and can be dissolved by resolutions of the bank's board of directors. GDB's affiliates are created by law and can only be dissolved through legislation; GDB acts primarily as affiliates' supervisor and does not consolidate their assets and liabilities on its balance sheet. The board of directors of each subsidiary is substantively the same as that of GDB.

Strategy: Maintain A Strong Financial Position

We expect management to focus on maintaining the bank's strong financial position while emphasizing its role as fiscal agent and promoting economic development in Puerto Rico. Mr. Carlos M. Garcia, who was nominated in November 2008 as President and Chairman of the Board of GDB by Puerto Rico's then governor-elect, has significant and relevant experience.

GDB's president and administration are subject to nomination by elected officials, which is typically associated with a gubernatorial election year in Puerto Rico, thereby resulting in potential management turnover. Puerto Rico's elected governor appoints GDB's president, which can result in changes in most of the officers of the bank every four years. GDB is governed by a seven-member board of directors appointed by the Governor of Puerto Rico. GDB's board of directors provides some degree of continuity of governance and management, given the staggered terms; however, board members can experience a high level of turnover when a new governor is elected.

Risk Profile And Management: Strong Credit Quality

Credit risk

GDB maintains a high-quality loan portfolio, but has significant loan concentrations. Credit risk at the bank is relatively low, in our view, because its borrowers are primarily the commonwealth of Puerto Rico, local government agencies, municipalities, and other public entities, the majority of which have investment-grade (i.e., 'BBB-' or better) credit ratings. Highlighting its strong loan performance, GDB has never experienced a loss on a loan to a public entity. As of the end of fiscal 2010, GDB had $57 million of loans in nonaccrual status, or less than 1% of total loans.

The bank has large loan exposures to the commonwealth and municipalities, although certain of these loans have been collateralized by specified tax receipts or tax liens, such as sales-tax proceeds or pledged property taxes. For example, in previous fiscal years, total loans declined due to loan repayments from the central government using proceeds from bond issues and 2.75% of the 7% sales tax that is pledged to COFINA.

GDB has significant loan concentrations, although its large borrowers generally have high credit ratings. Loans to the commonwealth of Puerto Rico and its agencies and instrumentalities were nearly $5 billion, or 35% of total assets as of June 30, 2010, down slightly from $5.1 billion, or 36% of total assets as of June 30, 2009. In fiscal 2009 and 2010, loans outstanding increased significantly, largely due to borrowings from public corporations following a large decline in fiscal 2008. These public corporations include the Puerto Rico Aqueduct and Sewer Authority, Puerto Rico Electric Power Authority, Public Building Authority, Puerto Rico Ports Authority, and Puerto Rico Highways and Transportation Authority--all of which have issues outstanding that are rated 'BBB-' or better. We think total loan exposures and loan concentrations could increase further because GDB issued significant new debt in the first half of fiscal 2011, a portion of which it used to refinance existing debt. GDB may also shift its asset mix away from its highly-liquid investment portfolio, which grew 42% in fiscal 2010 to $6.2 billion.

Despite potentially increased loan exposures, we take a positive view of certain loans to the commonwealth being collateralized by specified tax receipts or tax liens, such as sales tax proceeds. Passed in 2008, Act 125 authorized the commonwealth to sell tax receivables to fund its deficit, and named GDB as the commonwealth's fiscal agent and financial advisor in all matters concerning the implementation of the Act. COFINA administers the sales-tax proceeds. COFINA has issued senior and first subordinate revenue bonds based on anticipated sales tax collections--its approximately $5.2 billion in senior-lien sales tax revenue bonds are rated 'AA-' with a stable outlook. Subsequently, in early 2009, the Puerto Rico legislature approved an amendment to Law 91 that expanded COFINA's corporate purpose to include funding the commonwealth's budget deficit through fiscal 2012; paying accrued obligations to suppliers; establishing a local stimulus plan; and creating an emergency fund to cover expenses related to catastrophic events such as hurricanes and floods. To meet COFINA's expanded corporate purpose, the amendment to Act 91 increased the percentage of sales-tax receipts pledged directly to the Dedicated Sales Tax Fund (Fondo de Interés Apremiante, or FIA) to 2.75% from 1%. The increase became effective in fiscal 2010.

GDB's loans to local municipalities have a very strong credit history and collateral. For example, roughly 81% of its loans to municipalities are secured by pledged property taxes and sales and use taxes, while the remainder is payable from general municipal revenues. Also, municipal loans are secured by the Centro de Recaudación de Ingresos Municipales's tax revenues withholding mechanism. Furthermore, GDB's current policy is not to provide financing to any instrumentality of the commonwealth (other than the central government) unless the bank is satisfied that it can repay such financing from its own revenues.

GDB also extends loans to public corporations and short-term liquidity lines (fed funds lines) to the local regulated banks in Puerto Rico. During the recent construction boom, GDB increased its loan commitments for a few high-end hotel projects through one of its subsidiaries, the Puerto Rico Tourism Development Fund. We view pricing on these construction loans as very low relative to the risks, and view the exposures negatively from a credit perspective despite low original loan-to-value ratios and well-funded developers. This subsidiary had total assets of $586 million and outstanding guarantees and letters of credit of $140 million as of June 30, 2010, both of which increased substantially during the prior year, but in total are a relatively small proportion of the bank's assets.

Operational risk

We view the bank's operational policies and procedures as adequate, but view regulatory oversight as limited relative to other issuers that we rate. In our opinion, GDB has appropriate committees, compliance, and review policies, which its management team promotes. Finally, GDB enjoys a sound reputation in the financial-services industry and in its local market.

GDB is subject to fewer regulations than are most other banks that we rate. The bank is only regulated by The Commissioner of Financial Institutions of Puerto Rico, which performs audit examinations (reviews) every 18 months. Because GDB is not a bank holding company and does not have depositors, it is not regulated and supervised by the Federal Reserve Board or the Federal Deposit Insurance Corp. The bank currently is not a member of any Federal Home Loan Bank.

Funding and liquidity risk

Liquidity is very strong, in our view, given the bank's stable deposit base that is largely generated from municipalities and other public entities, and its high proportion of investment securities relative to total assets. The investment portfolio represented about 45% of total assets at June 30, 2010, consisting primarily of cash and cash equivalents and fixed-income securities with very high credit ratings, reflecting the bank's very conservative investment policies. Specifically, the vast majority of its portfolio--which consists primarily of money-market investments, U.S. Treasury securities, and U.S. agency securities--is invested in 'AAA' rated securities. The bank's holdings of term deposits and certificates of deposit are typically one month in maturity, which also augments its liquidity. GDB's money-market holdings are spread among four different money-market funds to minimize counterparty risk.

In sum, the estimated fair values of the bank's financial instruments closely approximated their reported values (i.e., carrying amounts), highlighting the negligible credit risk in the portfolio, in our opinion. As of June 30, 2010, about $1.5 billion of investment securities were restricted or pledged as collateral or payment sources for specific borrowings.

GDB is primarily funded by customer deposits, which are generated from municipalities and other public entities, and which provide the company a stable source of funds. GDB competes for these deposits with the commercial banks in Puerto Rico. These demand deposits and certificates of deposit generally have fairly short maturities and represented more than half of total liabilities at June 30, 2010. In recent years, GDB increased its issuance of medium-term notes (MTNs) and eliminated its commercial paper (CP) borrowings, which has lengthened the average maturity of its liabilities.

We also have a positive view of GDB's demonstrated consistent access to the capital markets in recent years at very attractive terms, aided by strong participation among both retail investors and local commercial banks. For example, GDB issued more than $1.5 billion in senior notes in fiscal 2010, including the $267 million reissuance of its 1985 adjustable-rate bonds, and more than $2.7 billion in senior notes thus far in fiscal 2011. The bank has used a portion of the proceeds from these issuances to refund previously issued notes with higher interest rates. We think the very favorable tax treatment for investors on interest income received on GDB debt aids GDB's consistent access to the capital markets. Management has also prudently staggered its debt maturities to minimize annual refinancing requirements. However, we think a weak economy, large but shrinking structural budget deficits in the commonwealth, and credit quality pressures among local commercial banks could reduce GDB's potential access to funding modestly in the near future. We view GDB's financial flexibility positively in our rating assessment.

Accounting: No Material Issues

We are currently not aware of any accounting issues that present material risks for the ratings, in our opinion. All balances and transactions of GDB's subsidiaries are consolidated with the bank's financial statements in accordance with generally accepted accounting principles. However, certain accounting policies could affect GDB's financial statements. For example, GDB's auditors have never required the bank to maintain a loan-loss reserve because its loan-loss experience has been negligible.

Profitability: Consistently Profitable

GDB has remained consistently profitable in recent years with annual net income of around $90 million; however, profitability becomes much more volatile when excluding large one-time contributions and transfers. On a consolidated basis, GDB experienced a net gain in fiscal 2009 due to a special item related to a contribution from an affiliate. Excluding this special item, GDB had a net loss in 2009 largely due to declines in interest income from lower investment yields and negative loan-rate resets. GDB's interest income recovered in 2010 after the bank adopted a new pricing strategy and added rate floors to its expanding loan book. We expect GDB to be profitable in fiscal 2011.

NIMs are very narrow, typically just more than 1%, given the attractive pricing offered to the bank's borrowers. However, return on earning assets is still acceptable in our opinion on a risk-adjusted basis and when considering the high proportion of cash and money-market assets to total assets. GDB has replaced its short-term CP with longer-duration MTNs in recent years, with the corresponding rise in funding costs offset by high-yield debt refinancing. We expect the NIM to rise further in fiscal 2010 given the continued expansion of GDB's loan portfolio and its loan-repricing initiatives.

GDB's operating expenses appear relatively high, partly because of the inclusion of the Housing Finance Authority as part of GDB. The Housing Authority has higher operating expenses, but also contributes more noninterest income to the revenue mix, all of which is associated with its federal housing assistance programs. Operating expenses have been elevated in recent years due to nonrecurring charges associated with the early retirement packages offered to employees. However, GDB has reduced headcount significantly, which should reduce operating expenses during the next several years.

Table 1

Government Development Bank for Puerto Rico Profitability Ratios

	--Year-ended June 30--		
(%)	2010	2009	2008
Net interest income/average earning assets	1.1	0.6	N/A
Net interest income/revenues	79.7	70.8	74.1
Fee income/revenues	0.0	0.0	0.0
Market-sensitive income/revenues	0.0	0.0	0.0
Personnel expense/revenues	19.9	34.3	19.8
Noninterest expenses/revenues	42.3	65.3	27.5
New loan loss provisions/revenues	17.1	45.7	1.1
Net operating income before loan loss provisions/loan loss provisions	337.2	75.9	6,713.1
Net operating income after loan loss provisions/revenues	40.6	(11.0)	71.4
Pretax profit/revenues	40.6	(11.0)	71.4
Tax/pretax profit	0.0	0.0	0.0
Core earnings/revenues	40.6	(11.0)	71.4
Core earnings/average adjusted assets	0.5	(0.1)	N/A
Noninterest expenses/average adjusted assets	0.5	0.5	N/A
Core earnings/average risk-weighted assets	N.M.	N.M.	N.M.
Core earnings/average adjusted common equity	2.9	(0.5)	6.1
Pretax profit/average common equity (%)	2.9	(0.5)	N/A

N/A--Not applicable. N.M.--Not meaningful.

Capital: Well Capitalized

Capital ratios continue to be very high, which we view positively from a credit perspective. For example, total net assets (i.e., shareholders' equity) increased to 19.4% of total assets as of June 30, 2010, from 17.5% as of June 30, 2009. Capital ratios had declined in fiscal 2009, largely due to strong growth in earnings assets (i.e., loans). Following little loan growth in fiscal 2010, we expect GDB's recent large debt issuances to lead to further expansion of its loan portfolio in 2011, with a corresponding decline in the bank's capital ratios.

GDB had approximately $2.5 billion in net assets (i.e., capital) as of June 30, 2010, the majority of which is unrestricted.

The potential for GDB to pay a special dividend to the commonwealth remains a modest risk from a credit perspective--although we view this as unlikely. For example, under a prior administration at GDB, the bank paid a large special dividend of roughly $500 million in December 2004 to fund the Special Communities Trust, which was allocated toward low-income housing, roads, community donations, and infrastructure projects (like water facilities). Furthermore, limited capital distributions are sometimes associated with the business of the Housing Finance Agency. A small capital distribution up to 10% of profits or $10 million in total in the form of a dividend is eligible to be paid annually with the 2002 passage of Act 82 at the option of the board. Certain legal restrictions prohibit the commonwealth from extracting dividends or accessing the bank's capital base, which increases the probability that a strong capital base will remain part of GDB's credit profile.

Table 2

Government Development Bank for Puerto Rico Capital Ratios

	--Year-ended June 30--		
(%)	**2010**	**2009**	**2008**
Adjusted common equity/risk assets (%)	N.M.	N.M.	N.M.
Tier 1 capital ratio	N/A	N/A	N/A
Adjusted total equity/adjusted assets	18.2	17.3	18.6
Adjusted total equity/managed assets	18.2	17.3	18.6
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	36.5	36.2	41.7
Common dividend payout ratio	0.0	0.0	0.0

N/A--Not applicable. N.M.--Not meaningful.

Table 3

Government Development Bank for Puerto Rico Summary Balance Sheet

	--Year-ended June 30--		
(Mil. $)	**2010**	**2009**	**2008**
Assets			
Cash and money market instruments	383.7	2,474.0	1,964.7
Securities	6,124.7	3,723.9	4,287.9
Trading securities (marked to market)	0.0	N/A	0.0
Nontrading securities	6,124.7	3,723.9	4,287.9
Mortgage-backed securities included above	0.0	0.0	0.0
Loans to banks (net)	0.0	0.0	0.0
Customer loans (gross)	6,966.4	6,683.3	5,460.9
Loan loss reserves	0.0	0.0	0.0
Customer loans (net)	6,966.4	6,683.3	5,460.9
Earning assets	13,474.8	12,881.2	11,713.4
Equity interests/participations (nonfinancial)	N/A	N/A	N/A
Investments in unconsolidated subsidiaries (financial companies)	N/A	N/A	N/A
Intangibles (nonservicing)	0.0	0.0	0.0
Interest-only strips	0.0	N/A	0.0
Fixed assets	0.0	N/A	0.0
Derivatives credit amount	0.0	N/A	0.0
Accrued receivables	0.0	N/A	0.0
All other assets	545.7	1,146.4	521.0
Total assets	14,020.5	14,027.6	12,234.4
Intangibles (nonservicing)	0.0	0.0	0.0
Minus insurance statutory funds	0.0	0.0	0.0
Adjusted assets	14,020.5	14,027.6	12,234.4
Liabilities			
Total deposits	6,149.2	7,554.8	7,003.5
Noncore deposits	0.0	0.0	0.0
Core/customer deposits	6,149.2	7,554.8	7,003.5
Acceptances	0.0	N/A	0.0

Table 3

Government Development Bank for Puerto Rico Summary Balance Sheet (cont.)			
Repurchase agreements	1,058.8	859.1	687.2
Other borrowings	3,225.1	2,090.1	889.1
Other other borrowings	3,225.1	2,090.1	889.1
Other credit reserves	0.0	N/A	0.0
Other liabilities	1,041.8	1,101.9	1,378.9
Total liabilities	11,475.0	11,605.8	9,958.7
Total equity	2,545.5	2,421.8	2,275.6
Manditorily convertible securities	0.0	N/A	0.0
Limited life preferred and quasi equity	0.0	0.0	0.0
Enhanced trust preferred	0.0	N/A	0.0
Minority interest-equity	0.0	N/A	0.0
Common shareholders' equity (reported)	2,545.5	2,421.8	2,275.6
Share capital and surplus	N/A	N/A	N/A
Revaluation reserve	N/A	N/A	N/A
Retained profits	N/A	N/A	N/A
Other equity	2,545.5	2,421.8	2,275.6
Total liabilities and equity	14,020.5	14,027.6	12,234.4

N/A--Not applicable.

Table 4

Government Development Bank for Puerto Rico Equity Reconciliation Table			
	--Year-ended June 30--		
(Mil. $)	**2010**	**2009**	**2008**
Common shareholders' equity (reported)	2,545.5	2,421.8	2,275.6
Plus minority interest (equity)	0.0	0.0	0.0
Minus dividends (not yet distributed)	0.0	0.0	0.0
Minus revaluation reserves	0.0	0.0	0.0
Minus nonservicing intangibles	0.0	0.0	0.0
Minus interest-only strips (net)	0.0	0.0	0.0
Minus tax loss carryforwards	0.0	0.0	0.0
Minus postretirement benefit adjustment	0.0	0.0	0.0
Minus other adjustments	0.0	N/A	0.0
Adjusted common equity	2,545.5	2,421.8	2,275.6
Plus admissible preferred and hybrids	0.0	0.0	0.0
Plus general reserves	0.0	0.0	0.0
Plus unrealized gains	0.0	N/A	0.0
Minus equity in unconsolidated subsidiaries	0.0	0.0	0.0
Minus capital of insurance subsidiaries	0.0	N/A	0.0
Minus adjustment for securitized assets	0.0	0.0	0.0
Adjusted total equity	2,545.5	2,421.8	2,275.6

N/A--Not applicable.

Table 5

Government Development Bank for Puerto Rico Profit And Loss

	--Year-ended June 30--		
(Mil. $)	**2010**	**2009**	**2008**
Net interest income	143.4	72.0	143.8
Interest income	508.0	432.6	576.1
Interest expense	364.6	360.6	432.3
Operating noninterest income	36.6	29.8	50.2
Fees and commissions	0.0	0.0	0.0
Net brokerage commissions	0.0	N/A	0.0
Trading gains	0.0	0.0	0.0
Other market-sensitive income	0.0	N/A	0.0
Net insurance income	0.0	0.0	0.0
Equity in earnings of unconsolidated subsidiaries	0.0	N/A	0.0
Other noninterest income	36.6	29.8	50.2
Operating revenues	180.0	101.7	194.0
Noninterest expenses	76.2	66.5	53.4
Personnel expenses	35.9	34.9	38.5
Other general and administrative expense	37.4	28.7	12.7
Net operating income before loss provisions	103.9	35.3	140.6
Credit loss provisions (net new)	30.8	46.5	2.1
Net operating income after loss provisions	73.1	(11.2)	138.5
Nonrecurring/special income	0.0	N/A	0.0
Nonrecurring/special expense	0.0	N/A	0.0
Amortization of intangibles	0.0	N/A	0.0
Impairment of intangibles	0.0	N/A	0.0
Pretax profit	73.1	(11.2)	138.5
Tax expense/credit	0.0	0.0	0.0
Net income (before minority interest)	73.1	(11.2)	138.5
Minority interest in consolidated subsidiaries	N/A	N/A	N/A
Net income before extraordinaries	73.1	(11.2)	138.5
Net income after extraordinaries	73.1	(11.2)	138.5

N/A--Not applicable.

Table 6

Government Development Bank for Puerto Rico Core Earnings Reconciliation Table

	--Year-ended June 30--		
(Mil. $)	**2010**	**2009**	**2008**
Net income (before minority interest)	73.1	(11.2)	138.5
Minus nonrecurring/special income	0.0	0.0	0.0
Plus nonrecurring/special expense	0.0	0.0	0.0
Plus or minus tax impact of adjustments	0.0	0.0	0.0
Plus amortization/impairment of goodwill/intangibles	0.0	0.0	0.0
Minus preferred dividends	0.0	0.0	0.0
Plus or minus other earnings adjustments	N/A	N/A	0.0

Table 6

Government Development Bank for Puerto Rico Core Earnings Reconciliation Table (cont.)			
Core earnings	73.1	(11.2)	138.5

N/A--Not applicable.

Related Criteria And Research

- "Industry Report Card: Large Regional U.S. Banks' Third-Quarter Results Show Persisting Challenges," Nov. 17, 2009
- "What Stress Tests Reveal about U.S. Banks' Capital Needs," May 1, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009
- "Criteria | Financial Institutions | General: Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
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Ratings Detail (As Of January 27, 2011)*	
Government Development Bank for Puerto Rico	
Counterparty Credit Rating	BBB/Stable/A-2
Certificate Of Deposit	
Local Currency	BBB/A-2
Senior Unsecured (10 Issues)	BBB
Senior Unsecured (1 Issue)	BBB/Developing
Counterparty Credit Ratings History	
13-Dec-2007	BBB/Stable/A-2
22-May-2007	BBB-/Stable/A-3
21-Jul-2006	BBB/Negative/A-2
22-Mar-2006	BBB/Watch Neg/A-2
Sovereign Rating	
United States of America	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.