Deloitte.

Puerto Rico Tourism Development Fund

(A Component Unit of Government Development Bank for Puerto Rico)

Basic Financial Statements and Required Supplementary Information as of and for the Year Ended June 30, 2011, and Independent Auditors' Report

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

TABLE OF CONTENTS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Deloitte.

Deloitte & Touche LLP
Torre Chardon
350 Chardon Avenue, Ste. 700
San Juan, PR 00918
USA

Tel: +1 787 759 7171
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of
Puerto Rico Tourism Development Fund

We have audited the accompanying balance sheet of Puerto Rico Tourism Development Fund (the "Tourism Fund"), a component unit of Government Development Bank for Puerto Rico, as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the Tourism Fund's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Tourism Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Tourism Fund as of June 30, 2011, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in notes 1 and 7 to the financial statements, the Tourism Fund is a component unit of Government Development Bank for Puerto Rico (the "Bank"). The Tourism Fund has material transactions with the Bank to finance its operations.

The management's discussion and analysis on pages 2 to 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Puerto Rico Tourism Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Deloitte & Touche LLP

December 1, 2011

Stamp No. E19973
affixed to original.

As financial management of the Puerto Rico Tourism Development Fund (the "Tourism Fund"), we offer readers of the Tourism Fund's financial statements this narrative overview and analysis of the Tourism Fund's financial performance during the fiscal year ended June 30, 2011. We encourage readers to read the information presented here in conjunction with the basic financial statements, which follow this section.

Financial Highlights

- Total assets and net assets amounted to approximately $611 million and $154 million, respectively, at June 30, 2011, increasing by approximately $25 million and decreasing by approximately $17 million when compared to June 30, 2010, respectively.

- The year ended with a negative change in net assets of approximately $17 million from a positive change in net assets of $70 million in fiscal year 2010.

- Operating revenues increased approximately $7 million or 63.2% as a result of an increase in the guarantee fees earned of $3 million and interest income of $3.4 million.

- At June 30, 2011, outstanding guarantees and letter of credit issued amounted to approximately $518 million from approximately $140 million at June 30, 2010.

Overview of the Financial Statements

This report includes this management's discussion and analysis section, the independent auditors' report, and the basic financial statements of the Tourism Fund. The basic financial statements also include notes that explain in more detail some of the information in the basic financial statements.

Required Financial Statements

The financial statements of the Tourism Fund report information using accounting methods similar to those used by private sector enterprises. The balance sheet provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for evaluating the capital structure of the Tourism Fund and assessing its liquidity and financial flexibility.

Revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Tourism Fund's operations over the past year and can be used to determine whether the Tourism Fund has successfully recovered its costs from the revenues it generates.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and capital and noncapital financing activities, and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the Tourism Fund

The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Tourism Fund's activities in a way that will help determine whether the Tourism Fund as a whole is better or worse financially as a result of this year's activities. These two statements report the net assets of the Tourism Fund and the changes in them. The Tourism Fund's net assets — the difference between assets and liabilities — is one way to measure financial health or financial position. Over time, increases or decreases in the Tourism Fund's net assets are one indicator of whether its financial health is improving or deteriorating. However, it is important to consider other nonfinancial factors such as changes in economic conditions particularly in the tourism industry, and new or changed government legislation.

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

	June 30,		Change	
	2011	2010	Amount	Percent
Current assets	$ 75,009	$ 142,263	$ (67,254)	(47.3)%
Noncurrent assets	536,243	443,927	92,316	20.8 %
Total assets	$ 611,252	$ 586,190	$ 25,062	4.3 %
Current liabilities	$ 17,891	$ 16,036	$ 1,855	11.6 %
Noncurrent liabilities	439,234	399,135	40,099	10.0 %
Total liabilities	457,125	415,171	41,954	10.1 %
Net assets	154,127	171,019	(16,892)	(9.9)%
Total liabilities and net assets	$ 611,252	$ 586,190	$ 25,062	4.3 %

Total assets increased by $25 million or 4.3% during the year mainly due to the net increase in loan receivable. During fiscal year 2011, net loans increased by approximately $26 million. Total liabilities increased by $42 million or 10.1% during the year mainly due to the net increase in the financing obtained from the Government Development Bank for Puerto Rico to fund loan disbursements. Additionally, the allowance for possible losses on guarantees and letters of credit increased by $2 million in fiscal year 2011.

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

	For the Years Ended June 30,		Change	
	2011	2010	Amount	Percent
Operating revenues:				
Guarantee fees	$ 5,142	$ 1,968	$ 3,174	161.3 %
Interest income on loans	11,781	8,403	3,378	40.2 %
Total operating revenues	16,923	10,371	6,552	63.2 %
Total operating expenses	50,125	28,410	21,715	76.4 %
Operating loss	(33,202)	(18,039)	(15,163)	(84.1)%
Nonoperating revenues	16,310	1,314	14,996	1141.2 %
Loss before contributions from others	(16,892)	(16,725)	(167)	(1.0)%
Contribution from the Commonwealth of Puerto Rico		15,000	(15,000)	(100.0)%
Contribution from Government Development Bank for Puerto Rico Capital Fund		72,066	(72,066)	(100.0)%
Change in net assets	(16,892)	70,341	(87,233)	(124.0)%
Net assets — beginning of year	171,019	100,678	70,341	(69.9)%
Net assets — end of year	$ 154,127	$ 171,019	$ (16,892)	(9.9)%

The change in net assets for the fiscal year 2011 resulted in net assets at June 30, 2011 of $154 million, which is $17 million or 9.9% less than the net assets at June 30, 2010. The decrease is mainly the result of the net effect of an increase in the provision for loan losses of $28 million offset by a decrease in the provision for possible losses on guarantees and letters of credit of $12 million.

Contacting the Tourism Fund's Financial Management

This financial report is designed to provide a general overview of the Tourism Fund's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Puerto Rico Tourism Development Fund, PO Box 42001, San Juan, Puerto Rico, 00940-2001.

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

BALANCE SHEET
AS OF JUNE 30, 2011

ASSETS	
CURRENT ASSETS:	
Cash	$ 21,885,011
Deposits placed with bank	38,272,670
Investments	3,708,800
Loans receivable	8,400,000
Accrued interest receivable	1,338,123
Other assets	1,404,104
Total current assets	75,008,708
NONCURRENT ASSETS:	
Investments	198,869,775
Loans receivable — net	337,083,379
Other assets	289,782
Total noncurrent assets	536,242,936
TOTAL	$611,251,644
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES:	
Unearned guarantee fees	$ 366,420
Accrued interest payable	5,722,254
Loans payable to Government Development Bank for Puerto Rico	8,400,000
Allowance for losses on guarantees and letters of credit	2,777,650
Other liabilities	625,047
Total current liabilities	17,891,371
NONCURRENT LIABILITIES:	
Unearned guarantee fees	1,039,362
Allowance for losses on guarantees and letters of credit	20,877,548
Participation agreement payable	26,000,000
Loans payable to Government Development Bank for Puerto Rico	391,116,476
Other liabilities	200,000
Total noncurrent liabilities	439,233,386
Total liabilities	457,124,757
UNRESTRICTED NET ASSETS	154,126,887
TOTAL	$611,251,644

See notes to basic financial statements.

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES:	
Guarantee and other fees	$ 5,142,247
Interest income on loans	11,780,784
Total operating revenues	16,923,031
OPERATING EXPENSES:	
Interest expense	14,838,833
Provision for loan losses	31,052,104
Provision for losses on guarantees and letters of credit	2,370,598
Professional fees	1,073,811
Management fees to Government Development Bank for Puerto Rico	495,893
Other	293,603
Total operating expenses	50,124,842
OPERATING LOSS	(33,201,811)
NONOPERATING REVENUES:	
Interest income on deposits placed with banks and investments	2,242,546
Net increase in fair value of investments	14,018,345
Other income	48,851
Total nonoperating revenues	16,309,742
CHANGE IN NET ASSETS	(16,892,069)
NET ASSETS — Beginning of year	171,018,956
NET ASSETS — End of year	$ 154,126,887

See notes to basic financial statements.

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Guarantee and other fees collected	$ 3,904,491
Management fees paid to Government Development Bank for Puerto Rico	(616,920)
Payments to service providers	(135,136)
Net cash provided by operating activities	3,152,435
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Interest paid	(4,112,588)
Proceeds from loans payable	35,572,126
Principal payments on loans payable	(7,700,000)
Net cash provided by noncapital financing activities	23,759,538
CASH FLOWS FROM INVESTING ACTIVITIES:	
Net increase in deposits placed with bank	39,169,231
Interest collected on deposits placed with bank and investments	1,390,952
Proceeds from redemptions and maturities of investments	76,030,838
Purchases of investments	(100,165,833)
Interest collected on loans	1,192,932
Principal collected on loans	8,780,790
Origination of loans	(55,199,962)
Net cash used in investing activities	(28,801,052)
NET DECREASE IN CASH	(1,889,079)
CASH — Beginning of year	23,774,090
CASH — End of year	$ 21,885,011

See notes to basic financial statements.

(Continued)

PUERTO RICO TOURISM DEVELOPMENT FUND
(A Component Unit of Government Development Bank for Puerto Rico)

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (33,201,811)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Provision for losses on guarantees and letters of credit	2,370,598
Provision for loan losses	31,052,104
Interest income on loans	(11,780,784)
Interest expense	14,838,833
Other income collected	48,851
Changes in operating assets and liabilities:	
Decrease in other assets	5
Decrease in unearned guarantee fees	(1,159,964)
Increase in other liabilities	984,603
Total adjustments	36,354,246
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 3,152,435
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES:	
Accretion of discount on investments	$ 864,625
Net increase in fair value of investments	$ 14,018,345
Capitalized interest on loans	$ 10,557,068
Capitalized interest on loan payable to Government Development Bank for Puerto Rico	$ 8,864,142

See notes to basic financial statements.

(Concluded)

1. REPORTING ENTITY

Puerto Rico Tourism Development Fund (the "Tourism Fund") is a component unit of Government Development Bank for Puerto Rico (the "Bank"). The Bank is a component unit of the Commonwealth of Puerto Rico (the "Commonwealth").

The Tourism Fund was created by resolution of the Bank's board of directors in 1993 to promote the hotel and tourism industry of the Commonwealth by making capital investments in, or by providing financing directly or indirectly (through the use of letters of credit and guarantees) to entities that can contribute to the development of this industry. The Tourism Fund is exempt from taxation in Puerto Rico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Tourism Fund conform to accounting principles generally accepted in the United States of America ("U.S. GAAP"), as applicable to governmental entities. The Tourism Fund follows Governmental Accounting Standards Board ("GASB") under the hierarchy established by Statement No. 55, *The Hierarchy of Generally Accepted Principles for the State and Local Governments*, in the preparation of its financial statements. The Tourism Fund has elected to apply all Financial Accounting Standards Board's pronouncements issued after November 30, 1989 to the extent they did not conflict with GASB pronouncements.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Following is a description of the Tourism Fund's most significant accounting policies:

Measurement Focus and Basis of Accounting — The Tourism Fund's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of related cash flows.

Operating Revenues and Expenses — Operating revenues and expenses are distinguished from nonoperating items. The principal operating revenues of the Tourism Fund are interest earned on loans granted to developers of tourism projects, and guarantee and other fees collected from developers of tourism projects. Operating expenses include the provisions for losses on guarantees and letters of credit and on loans, interest expense related to financings used to fund the origination of loans or to honor guarantee disbursements, and those expenses related to the administration of the entity. All other revenues and expenses not meeting these criteria are reported as nonoperating revenues and expenses.

Guarantee and Other Fees — Guarantee and other fees collected in advance are amortized over the life of the related guarantee using the straight-line method.

Investments — Investments and investment contracts are carried at fair value, except for money market instruments and participating investment contracts with a remaining maturity at the time of purchase of one year or less, and nonparticipating investment contracts (guaranteed investment contracts), which are carried at cost; and investment positions in 2a-7 like external investment pools, which are carried at the pools' share price. Fair value is determined based on quoted market prices and quotations received from independent broker/dealers or pricing service organizations. Realized gains and losses from the sale of investments and unrealized changes in the fair value of outstanding investments are included in net increase (decrease) in fair value of investments.

Investments in preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor, are reported at fair value. Investments in preferred stock, excluding preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor, are reported at fair value when it is readily determinable. If fair value is not readily determinable preferred stock are reported at cost, adjusted for other-than-temporary impairment. Fair value is determined based on quotations received from independent broker/dealers. Realized gains and losses from the sale of investments, unrealized changes in the fair value of outstanding investments, and other-than-temporary impairment losses are included in net increase (decrease) in fair value of investment.

Loans and Allowance for Loan Losses — Loans are presented at the outstanding unpaid principal balance reduced by any charge-offs and the allowance for loan losses. The accrual of interest on loans ceases when loans become past due over six months. Once a loan is placed in nonaccrual status, all accrued interest receivable is reversed from interest income. Interest income on nonaccrual loans is thereafter recognized as income only to the extent actually collected. Management reinstates a nonaccrual loan to accrual when the borrower has totally satisfied all amounts due.

The allowance for loan losses is established through provisions charged to operations. The allowance is based on management's evaluation of the risk characteristics of the loans, including such factors as the nature of individual credits outstanding, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and general economic conditions. Loan charge-offs are recorded against the allowance when management believes that the collectability of the principal is unlikely. Recoveries of amounts previously charged off are credited to the allowance for loan losses. Because of uncertainties inherent in the estimation process, management estimate of credit losses in the outstanding loans receivable portfolio and the related allowance may change in the near future.

Loans considered to be impaired are generally reduced to the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent, by allocating a portion of the allowance for loan losses to such loans. If these allocations cause increases to the allowance for loan losses, such increase is reported as provision for loan losses. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a loan to be impaired when it is probable that the Tourism Fund will be unable to collect all amounts due according to the contractual terms of the loan agreement. Interest income and cash receipts on impaired loans are accounted predominantly in the same manner as nonaccrual loans.

Transfers of Receivable — Transfers of receivable are accounted and reported as a sale if the Tourism Fund's continuing involvement with the receivable is effectively terminated. This approach distinguishes transfers of receivables that are sales from transfers that are collateralized borrowings.

The Tourism Fund's continuing involvement is considered to be effectively terminated if all of the following criteria are met: (i) the transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints imposed by the transferor, either in the transfer agreement or through other means, (ii) the transferor does not have the option or ability to unilaterally substitute for or reacquire specific accounts from among the receivables transferred, except in certain limited circumstances, (iii) the sale agreement is not cancelable by either party, including cancellation through payment of a lump sum or transfer of other assets or rights, and (iv) the receivables and the cash resulting from their collection have been isolated from the transferor.

Allowance for Losses on Guarantees and Letters of Credit — Management periodically evaluates the credit risk inherent in the guarantees and letters of credit on the same basis as loans are evaluated. The Tourism Fund charges as expense the amount required to cover estimated losses by establishing a specific allowance component for guarantees and letters of credit relating to loans in default, determined on the basis of the estimated future net cash outlays in connection with the related guarantees and letters of credit or the fair value of the collateral, and a general component for the risk inherent in certain other guarantees and letters of credit outstanding, established as a percentage of the principal amount of the underlying loans, based on the Tourism Fund's loss experience on financial guarantees and letters of credit, and management's best judgment.

When a guarantee or letter of credit is honored, the Tourism Fund recognizes any disbursement as a nonperforming loan; therefore, no interest is accrued on the principal. After a specific analysis of the provision requirements, the related allowance included in the allowance for guarantees and letters of credit is reclassified to the allowance for loan losses. Any deficiency in the estimated allowance requirement is recorded as an additional provision to the allowance for loan losses.

The concentration of risk in the guarantees and letters of credit issued, predominantly those issued by the Tourism Fund (small number of large guarantees, geographical concentration in Puerto Rico, industry concentration in hotel and tourism), as well as the limited historical loss experience and other factors, compounds the uncertainty in management's estimate of the allowance for losses on guarantees and letters of credit. As a result, the aggregate losses on guarantees and letters of credit ultimately incurred by the Tourism Fund may differ from the allowance for losses as reflected in the accompanying basic financial statements, and such differences may be material.

Pursuant to the legislation under which the Tourism Fund was created, the executive director of the Tourism Fund is required to certify each year to the director of the OMB the amount, if any, that is necessary to reimburse the Tourism Fund for disbursements made in the previous year, in connection with obligations guaranteed in excess of fees and charges collected on such guarantees ("net disbursements"). On December 16, 2009, Act No. 173 was enacted, which amended the legislation that created the Tourism Fund, to modify the definition of net disbursements to include disbursements made by the Tourism Fund, for (i) loans to third parties, (ii) the acquisition of loan participations, and (iii) the acceleration of maturities of loans, notes, bonds or other type of debt guaranteed by the Tourism Fund. In addition, Act No. 173 provides that disbursements shall not be deemed made in the year in which the disbursement occurs but shall be deemed made in the year in which the executive director of the Tourism Fund determines that a loss was incurred with respect to a loan, note, bond or debt (such determination being referred to as a "realized loss"). The director of the OMB has to include the amount subject to reimbursement in the general budget of the Commonwealth for the following fiscal year for the Legislature's consideration and approval. The Legislature is not obligated to authorize such appropriations. As of June 30, 2011, there were no outstanding claims for reimbursements.

Future Adoption of Accounting Pronouncements — The GASB has issued the following Statements:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employers Plans*, which is effective for periods beginning after June 15, 2011.

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, which is effective for periods beginning after December 15, 2011.

- GASB Statements No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which is effective for periods beginning after June 15, 2012.

- GASB Statements No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which is effective for periods beginning after December 15, 2011.

- GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011.

- GASB Statements No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions — An Amendment of GASB Statement No. 53*, which is effective for periods beginning after June 15, 2011.

Management is evaluating the impact that these statements will have on the Tourism Fund's basic financial statements.

3. CASH

Custodial credit risk is the risk that, in the event of a financial institution failure, the Tourism Fund's may not be able to recover its deposits. The depository bank balance of $21,865,802 as of June 30, 2011 represents interest-bearing demand deposits with the Bank and was uninsured and uncollateralized. The Tourism Fund does not have a formal policy for custodial credit risk for deposits.

4. DEPOSITS PLACED WITH BANK

Deposits placed with bank represent time deposits with the Bank as of June 30, 2011. These time deposits of approximately $33.4 million and $4.9 million bear interest at 0.25% and 0.30%, respectively, and both mature in July 2011. This balance was uninsured and uncollateralized.

5. INVESTMENTS

The Bank's board of directors made extensive to the Tourism Fund the investment policies of the Bank. These investment policies allow management to purchase or enter into the following investment instruments:

- U.S. government and agencies obligations

- Certificates of deposit and time deposits

- Bankers' acceptances

- Obligations of the Commonwealth of Puerto Rico, its agencies, municipalities, public corporations, and instrumentalities
- Federal funds sold
- Securities purchased under agreements to resell
- World Bank securities
- Mortgage-backed and asset-backed securities
- Corporate debt, including investment contracts
- External investment pools
- Stock of corporations created under the laws of the United States of America or the Commonwealth of Puerto Rico
- Options, futures, and interest-rate swap agreements for hedging and risk control purposes, as well as for the creation of synthetic products which qualify under any of the foregoing investment categories
- Open-end mutual funds with acceptable underlying assets and rated AAA by Standard & Poor's or its equivalent by Moody's

The Tourism Fund's investment policies establish limitations and other guidelines on maturities and amounts to be invested in the aforementioned investment categories and by issuer/counterparty and on exposure by country. In addition, such policies provide guidelines on the institutions with which investment transactions can be entered into. In addition, the board of directors of the Tourism Fund will determine, from time to time, other transactions that the Tourism Fund may enter into.

The Tourism Fund's investment policies provide that investment transactions shall be entered into only with counterparties that are rated BBB+/A-1 or better by Standard & Poor's or equivalent rating by Moody's Investors Service or Fitch Ratings, depending on the type and maturity of the investment and the counterparty to the transaction. Any exceptions must be approved by the Tourism Fund's board of directors. The investment policies also provide that purchases and sales of investment securities shall be made using the delivery vs. payment procedures. The Tourism Fund does not have a formal policy for interest rate risk management.

The following table summarizes the type and maturities of investments held by the Tourism Fund at June 30, 2011. Investments by type in any one issuer representing 5% or more of total investments have been separately disclosed. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year	After One to Five years	After Five to Ten Years	After Ten Years	Total
U.S. sponsored agencies notes —					
Federal Home Loan Bank	$ -	$23,009,410	$ -	$ -	$ 23,009,410
Mortgage and asset-backed securities:					
Federal Home Loan Mortgage Corporation		5,008,400	5,272,571		10,280,971
Federal Farm Credit Bank		20,071,700			20,071,700
Federal National Mortgage Association			22,126,978	5,809,404	27,936,382
Corporate debt:					
Goldman Sachs	3,000,120				3,000,120
General Electric	708,680	3,111,643			3,820,323
Walmart Stores		2,116,340			2,116,340
Total	$3,708,800	$53,317,493	$27,399,549	$5,809,404	90,235,246
External investment pools — Equity securities:					
Russell 1000 Growth Commont Trust Fund					47,581,657
Global Opportunities Capital Appreciation Fund					14,757,197
Desarrolladora del Norte, S. en C. — Class B preferred special interests					50,000,000
Flagship Resort Property, S.E.					4,475
					$202,578,575

Investments in fixed income external investment pools had an average maturity of approximately 60 days; accordingly, they were presented as investments with maturity of less than one year. These investments are with the Puerto Rico Government Investment Trust Fund, a government-sponsored pool, which is administered by the Bank. This pool is subject to regulatory oversight by the Commissioner of Financial Institutions of Puerto Rico. The fair value of the pool is the same as the value of the pool shares.

On December 23, 2009, the Tourism Fund invested $50 million in Class B preferred special interest of Desarrolladora del Norte, S. en C., ("Desarrolladora del Norte"), which is a partnership and owns and operates the Hotel Gran Meliá, Puerto Rico. This investment accrues dividends at an annual rate of 6.50%, which are cumulative and payable when declared by the managing partner and on the date of redemption, as indicated below. Undeclared and accrued dividends at June 30, 2011, amount to approximately $4.5 million. At the end of five years, Desarrolladora del Norte has the option to redeem Class B special interests that shall represent an ownership interest in the partnership equal to 30 percent. Sol Meliá, S.A., the parent company of Desarrolladora del Norte, will pledge 5,000,000 of its common stock to the Tourism Fund on February 25, 2012, and has provided a guarantee to the Tourism Fund to cover any shortfall between the fair value of the pledged common stock and the original investment of $50 million plus accrued and unpaid dividends. In case the conversion to Class B special interests takes place and in order to recover its original investment plus unpaid dividends, the Tourism Fund is entitled to sell the shares, subject to a limit of 40,000 shares per day or 15% of the previous day volume.

All of the investments at June 30, 2011 were rated from AAA to A- by Standard & Poor's in compliance with the Tourism Fund's policies for investments, except for the investments in external investment pools in equity securities and investments in partnerships, which are not rated.

On August 29, 2003, the Tourism Fund acquired a participation of 5% in Flagship Resort Property, S.E. as consideration for issuing its credit facilities for the rehabilitation of the resort. The carrying value of this investment at June 30, 2011 amounted to $4,475.

6. LOANS RECEIVABLE

As part of the credit facilities offered by the Tourism Fund, it has provided direct loans to tourism development projects. The intention is to provide (i) alternative financing to some projects in the Tourism Fund guarantee portfolio and (ii) interim financing to projects under construction.

Total loans receivable as of June 30, 2011 consist of approximately $345 million, net of an allowance for possible loan losses of approximately $87 million.

The Tourism Fund originated loans for approximately $55 million during the year ended June 30, 2011. Management considers these loans to have greater credit risk due to the dependency on income production or future development of the tourism project. These loans are principally collateralized by real estate property to minimize the credit risk.

The following is a summary of loans considered to be impaired as of June 30, 2011, and the related interest income for the year then ended (in thousands):

Recorded investment in impaired loans:	
Not requiring an allowance for loan losses	$ -
Requiring an allowance for loan losses	141,062
Total recorded investment in impaired loans	$ 141,062
Related allowance for loan losses	$ 76,502
Average recorded investment in impaired loans	134,331
Interest income recognized on impaired loans	-

The following is a summary of the activity in the allowance for loan losses for the year ended June 30, 2011:

Balance — beginning of year	$ 55,762,972
Provision for loan losses	31,052,104
Balance — end of year	$ 86,815,076

7. LOANS PAYABLE TO GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

The Tourism Fund has obtained various lines of credit from the Bank in order to provide loans or invest in tourism projects. These lines of credit contain flexible terms with respect to maturity date and interest rate. They bear variable interest based on the London InterBank Offered Rate or fixed rates ranging from 1.69% to 6.25% at June 30, 2011, and maturing from December 2011 to June 2029. The source of payment of these lines of credit comes from cash flows from the operations of the Tourism Fund.

Activity of the various lines of credit during the year was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Lines of credit	$ 362,780,208	$ 44,436,268	$ 7,700,000	$ 399,516,476	$ 8,400,000

8. PARTICIPATION AGREEMENT PAYABLE

On April 10, 2006, the Tourism Fund entered into a debt restructuring agreement with Hotel Dorado, S.E. (the "Hotel") whereby the Tourism Fund, as guarantor of the Hotel's AFICA bonds, accelerated the AFICA bonds payment in exchange for a note receivable of $26 million (the "Note") from the Hotel. In addition, on April 10, 2006, the Tourism Fund entered into a participation agreement with a financial institution whereby the Tourism Fund transferred a 100% participation (the "Participation") in the Note.

The Participation is subject to recourse and the Tourism Fund is obligated to purchase the loan from the financial institution upon the occurrence and during the continuance of an event of default under the participation agreement. The participation agreement also stipulates that the financial institution cannot sell, pledge, transfer, assign or dispose of the Participation without the Tourism Fund's consent. Accordingly, the Tourism Fund has recorded the Note as part of loans receivable and has recorded a participation agreement payable (i.e. a collateralized borrowing) in the accompanying balance sheet.

The Participation bears a variable interest rate, based on the three-month LIBOR plus 2.50% (the three-month LIBOR rate was approximately .25% at June 30, 2011), until maturity. Interest is payable on a quarterly basis. In August 2008, The Tourism Fund agreed to extend the maturity to July 1, 2018 and approved a conditional-commitment to provide a guarantee for a permanent loan to be provided by the financial institution upon completion of the construction of some amenities and subject to compliance with certain conditions. The outstanding principal balance of the Note and the corresponding participation agreement payable amounted to $26 million as of June 30, 2011.

9. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Tourism Fund is party to transactions involving financial instruments with off-balance-sheet risk, to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of amounts recognized in the accompanying balance sheet. These off-balance-sheet risks are managed and monitored in manners similar to those used for on-balance-sheet risks. The Tourism Fund's exposure to credit losses for lending commitments is represented by the contractual amount of those transactions.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments might expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Tourism Fund 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. At June 30, 2011, commitments to extend credit amounted to approximately $21.6 million.

10. COMMITMENTS AND CONTINGENCIES

At June 30, 2011, the Tourism Fund had the following outstanding guarantees and letters of credit:

Description	Outstanding Commitment Amount	Expiration Date
Palmas Athletic Club	$ 26,250,000	December 2030
DBR Dorado Owner LLC	231,132,813	August 2018
SGDP Hotel LLC — Condado Lagoon Villas II	24,386,668	June 2020
Serrallés Hotel, Inc. (Ponce Hilton)	52,810,000	April 2033
Coco Beach Golf & Country Club	26,355,000	December 2030
CCHPR Hospitality LLC	157,560,000	August 2017
Total	$518,494,481	

Typically, the Tourism Fund provides guarantee for the timely payment of principal and interest on the obligations issued to finance the tourism projects. It also provides other types of credit facilities such as (i) deficiency guarantees where the Tourism Fund guarantees the recovery of any deficiency the lender may realize on the final disposition of the collateral and (ii) direct loans.

Since December 24, 2009, the Tourism Fund has honored its guarantee to the Palmas Athletic Club project in connection with the $30 million Revenue Bonds 2000, Series A, (the "Revenue Bonds") issued by Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA"). On August 4, 2010, Palmas del Mar Country Club, Inc. ("PCCI"), the former owner and operator of the Palmas del Mar project, filed a voluntary petition for relief under Chapter 11 of the United State Bankrupcy Code. On October 19, 2010, the Bankruptcy court approved the sale of the facilities by PCCI to Tourism Fund and such sale was consummated. On October 22, 2010, the Tourism Fund entered into an agreement of purchase and sale with Palmas Athletic Club, Corp. (PAC), a not-for-profit corporation. PAC is currently operating the Palmas del Mar project. PAC also assumed all the liabilities and obligations of PCCI, including the AFICA's Revenue Bonds 2000, Series A. As of June 30, 2011, the Tourism Fund had paid $4.9 million to cover the debt service of such bonds.

On July 14, 2010, the Tourism Fund entered into a guaranty agreement for $231 million interim and permanent financing to DBR Dorado Owner LLC for the development of the Ritz-Carlton Reserve, Dorado Beach Resort and Spa.

On August 17, 2010, the Tourism Fund made effective its guarantee to a $157.6 million senior term loan, provided by a financial institution to CCHPR Hospitality LLC ("CCHPR"). CCHPR is the corporate entity that owns the Sheraton Puerto Rico Hotel & Casino, which opened on November 9, 2009. The loan is payable monthly on the first day of each month, commencing March 1, 2011.

In November 2010, SGDP Hotel LLC, the corporate entity that owns the Condado Lagoon Villas II, defaulted on a loan. Since December 2010, the Tourist Fund has made $244,734 in interest and principal payments to honor its guarantee on the loan. On March 28, 2011, the Tourism Fund received a $137,778 reimbursement from SGDP Hotel LLC as part of a principal moratorium, granted until February 2013, approved by the Tourism Fund and the commercial bank.

On November 5, 2010, the Tourism Fund issued a guarantee for a term loan of $5.6 million granted by a financial institution to Hotel Dorado, S.E. – the corporate entity that owns the Embassy Suites Dorado del Mar Hotel – to complete the construction and development of a new casino and parking complex.

On March 30, 2011, a financial institution, as trustee, made a drawing of $25,621,123 on an irrevocable stand-by-letter of credit issued by the Tourism Fund which secured the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA"), 2000 Series A and 2004 Series A Bonds for the construction and development of the Coco Beach Golf and Country Club. These two series of bonds were refinanced by a new AFICA 2011 Series A for $26,355,000 due on December 20, 2034 on which the Toursim Fund remained as guarantor.

On June 8, 2011, the Tourism Fund paid approximately $10.1 million to honor the participation in a credit agreement between a financial institution and Flagship Resort Properties, S. E. (Verdanza Hotel; former Holiday Inn – Isla Verde).

Following is the activity of the allowance for guarantees and letters of credit for fiscal year 2011:

	Beginning Balance	Provision	Recoveries	Charges	Ending Balance
Allowance for losses on guarantees and letters of credit	$21,284,600	$2,370,598	$ -	$ -	$23,655,198

11. LITIGATION

The Tourism Fund and certain of its component units are defendants in several lawsuits arising out of the normal course of business. Management, based on advice of legal counsel, is of the opinion that the ultimate liability, if any, resulting from these pending proceedings will not have a material adverse effect on the financial position and results of operations of the Tourism Fund.

12. NET ASSETS

The Tourism Fund had internally designated $114 million of its net assets at June 30, 2011 in relation to guarantees and letters of credit issued and loans outstanding.

13. MANAGEMENT FEES

The Bank provides certain management and administrative services to the Tourism Fund for which the Bank charged approximately $496,000 during the year ended June 30, 2011.

14. SUBSEQUENT EVENTS

Subsequent events were evaluated through December 1, 2011, the date the financial statements were available to be issued, to determine if any such events should either be recognized or disclosed in the financial statements. Management has determined that there are no material events or transactions that would affect the Tourism Fund's financial statements through such date.

* * * * * *