

**NEW ISSUE**  
**Full-Book-Entry**  
(See "Book-Entry Only System" under *The Notes*)

**RATINGS**  
**Moody's: MIG 1**  
**S&P: SP-1+**

*In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law (i) assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Notes and the interest thereon are exempt from state, Commonwealth of Puerto Rico and local income taxation. Interest on the Notes may be subject to certain federal taxes imposed only on certain corporations, including the corporate alternative minimum tax on a portion of that interest. For a more complete discussion of the tax aspects of the Notes, see "TAX MATTERS" herein.*

**\$1,010,000,000**  
**COMMONWEALTH OF PUERTO RICO**  
**Tax and Revenue Anticipation Notes**  
**Series 2008**

Dated: Date of Delivery  
Due: July 30, 2008

Yield: 3.40%  
Interest Rate: 4.25%

The Notes bear interest at the annual rate shown above, computed on the basis of twelve 30-day months and a 360-day year. Principal of and interest on the Notes are payable in immediately available funds at maturity. The Notes are not subject to redemption prior to maturity. The Notes are issuable in fully registered form in denominations of \$5,000 and any integral multiple thereof.

Payment of the principal of and interest on the Notes are secured by and payable from an irrevocable direct pay letter of credit issued on a several and not joint basis by a syndicate of seven (7) banks as set forth in the table below (the "Letter of Credit Banks") in the amounts and the percentages set forth therein (the "Letter of Credit"):

Name of Bank	Maximum Amount of Principal	Several Obligation
THE BANK OF NOVA SCOTIA	\$202,000,000	20.00%
BNP PARIBAS	191,900,000	19.00%
DEXIA CREDIT LOCAL	191,900,000	19.00%
FORTIS BANK, S.A./N.V.	151,500,000	15.00%
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	141,400,000	14.00%
KBC BANK N.V.	101,000,000	10.00%
BANCO SANTANDER, S.A.	30,300,000	3.00%
	<b>\$1,010,000,000</b>	<b>100.00%</b>

Principal of and interest on the Notes are payable (i) from amounts drawn under the Letter of Credit, and (ii) in the event one or more Letter of Credit Banks fail to honor their several portions under the Letter of Credit, from the Special Fund for the Redemption of Tax and Revenue Anticipation Notes as further described herein (the "Note Fund"). Banco Popular de Puerto Rico, Trust Division, on behalf of the Commonwealth, is the Paying Agent and will deliver payment of the principal of and interest on the Notes at maturity from a drawing on the Letter of Credit. The Note Fund is funded solely from taxes and revenues in the General Fund collected after July 1, 2007 and on or prior to June 30, 2008, as described herein. During the term of the Notes, the Commonwealth may also borrow funds pursuant to a Revolving Credit Agreement, as further described herein. Amounts in the Note Fund will be used to repay the Letter of Credit Note and the Revolving Credit Note, and the Notes to the extent one or more Letter of Credit Banks fail to honor their several portions under the Letter of Credit, as further described herein. See "Payment of and Security for the Notes" under The Notes.

The Notes do not constitute obligations of the Commonwealth of Puerto Rico for the payment of which the full faith, credit and taxing power of the Commonwealth of Puerto Rico, nor that of any of its political subdivisions, are pledged.

The Notes are offered when, as and if issued and accepted by the Underwriters, subject to the approval of legality by Squire, Sanders & Dempsey L.L.P., Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriters by Quiñones & Sánchez PSC, and for the Letter of Credit Banks by Chapman and Cutler LLP. It is expected that settlement for the Notes, in immediately available funds, will occur in Puerto Rico, on or about November 1, 2007.

**Wachovia Capital Markets, LLC**

**Banc of America Securities LLC**  
**Citi**  
**JPMorgan**  
**Merrill Lynch & Co.**  
**Popular Securities**  
**Santander Securities**

**BBVAPR MSD**  
**DEPFA First Albany Securities, LLC**  
**Lehman Brothers**  
**Morgan Stanley**  
**RBC Capital Markets**  
**Scotia Capital**  
**UBS Investment Bank**

**Bear, Stearns & Co., Inc.**  
**Goldman, Sachs & Co.**  
**Loop Capital**  
**Oriental Financial Services**  
**Samuel A. Ramírez & Co., Inc.**  
**TCM Capital**

## Commonwealth of Puerto Rico

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ANÍBAL ACEVEDO VILÁ

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*Secretary of State*

ROBERTO J. SÁNCHEZ RAMOS  
*Secretary of Justice*

JUAN C. MÉNDEZ TORRES  
*Secretary of the Treasury*

RAFAEL ARAGUNDE TORRES  
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ROMÁN M. VELASCO  
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*Secretary of Labor and  
Human Resources*

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*Secretary of Health*

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CARLOS GONZÁLEZ MIRANDA  
*Secretary of Transportation  
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*Secretary of Economic  
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*Secretary of Family Affairs*

JORGE RIVERA JIMÉNEZ  
*Secretary of Housing*

JAVIER VÉLEZ AROCHO  
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DAVID E. BERNIER RIVERA  
*Secretary of Sports and Recreation*

MIGUEL A. PEREIRA CASTILLO  
*Secretary of Corrections  
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HERNÁNDEZ  
President, Senate

JOSÉ F. APONTE HERNÁNDEZ  
Speaker, House of  
Representatives

#### *Fiscal Officers*

JOSÉ G. DÁVILA-MATOS  
Director, Office of Management  
and Budget

JORGE IRIZARRY HERRANS  
Acting President, Government  
Development  
Bank for Puerto Rico

No dealer, broker, sales representative or other person has been authorized by the Commonwealth of Puerto Rico or the Underwriters to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Commonwealth of Puerto Rico or the Underwriters. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale. The information set forth herein has been obtained from the Commonwealth of Puerto Rico and other official sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by any Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstance, create any implication that there has been no change in the affairs of the Commonwealth of Puerto Rico since the date hereof. This Official Statement is submitted in connection with the sale of the Notes referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. Each of the Letter of Credit Banks has supplied the information relating to it and included in *Appendix III*. Neither the Commonwealth nor the Underwriters make any representation as to the accuracy or completeness of the information contained in *Appendix III*.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**\$1,010,000,000**  
**COMMONWEALTH OF PUERTO RICO**  
**Tax and Revenue Anticipation Notes**  
**Series 2008**

**INTRODUCTORY STATEMENT**

This Official Statement sets forth certain information about the Commonwealth of Puerto Rico (the "Commonwealth" or "Puerto Rico") and the \$1,010,000,000 Tax and Revenue Anticipation Notes of the Commonwealth of Puerto Rico, Series 2008 (the "Notes").

The Notes are being issued under Act No. 1 of the Legislature of Puerto Rico (the "Legislature"), approved on June 26, 1987, as amended by Act No. 139 of the Legislature, approved on November 9, 2005 (collectively, the "Act"), and pursuant to a resolution adopted by the Secretary of the Treasury of Puerto Rico (the "Secretary of the Treasury") and approved by the Governor of Puerto Rico on October 18, 2007 (the "Note Resolution"), for the purpose of: (i) repaying certain amounts borrowed by the Commonwealth under a line of credit provided by the Revolving Credit Banks (as defined below) and related note issued pursuant to the Act in advance of the issuance of the Notes, which amounts were borrowed to provide funds to pay the appropriations made for fiscal year 2008 in anticipation of the receipt of taxes and revenues required to be deposited in the Commonwealth's General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2008, and (ii) paying certain of the costs of issuance of the Notes (including certain fees associated with the Letter of Credit).

Without the issuance of the Notes, the Commonwealth estimates that the General Fund would incur monthly cash deficits which would reach a cumulative maximum deficit of approximately \$979 million in March 2008. For a breakdown of the fiscal year 2008 General Fund cash flow projections, before and after taking into account the issuance of the Notes, see "General Fund Monthly Cash Flow for Fiscal Year 2007 and Fiscal Year 2008" under *The Notes*.

The Notes are secured by the Letter of Credit, which is an irrevocable direct pay letter of credit issued on a several and not joint basis by the Letter of Credit Banks pursuant to a Reimbursement Agreement dated as of November 1, 2007 among the Commonwealth and The Bank of Nova Scotia, acting through its New York Agency, as Lead Arranger and Administrative Agent, and as a Letter of Credit Bank through its Hato Rey Branch; BNP Paribas, acting through its San Francisco Branch, and Dexia Credit Local, acting through its New York Branch as Co-Agents and as Letter of Credit Banks; Fortis Bank S.A./N.V., acting through its New York Branch; Banco Santander, S.A., acting through its New York Branch; Banco Bilbao Vizcaya Argentaria S.A., acting through its New York Branch; and KBC Bank N.V., acting through its New York Branch (the "Reimbursement Agreement"). For a discussion of the payment source and the security for the Notes, including the Letter of Credit and the Reimbursement Agreement, see "Payment of and Security for the Notes" under *The Notes*.

This Official Statement incorporates (i) the Commonwealth of Puerto Rico Financial Information and Operating Data Report dated as of July 1, 2007 (the "Commonwealth Report") and which is appended as *Appendix I* to the Official Statement of the Commonwealth dated September 19, 2007 relating to the issuance by the Commonwealth of its \$408,800,000 Public Improvement Bonds of 2007, Series A (the "2007 A PIB Official Statement"), which is incorporated herein by this reference, (ii) the proposed Bond Counsel Opinion, attached hereto as *Appendix II*, (iii) a description of each of the Letter of Credit Banks, attached hereto as *Appendix III*, and (iv) the Comprehensive Annual Financial Report of the Commonwealth for the fiscal year ended June 30, 2006, as amended, prepared by the Department of the Treasury of the Commonwealth (the "Commonwealth's Annual Financial Report"), which is incorporated herein by this reference. The Commonwealth's Annual Financial Report includes the basic financial statements of the Commonwealth as of and for the fiscal year ended June 30, 2006, together with the independent auditor's report thereon, dated August 1, 2007, of KPMG LLP, certified public accountants. KPMG LLP did not audit the financial statements of the Public Buildings Authority's capital project fund or the Children's Trust special revenue fund (major funds), and certain activities, funds, and component units separately identified in its report. Those financial statements were audited by other auditors whose reports have been furnished to KPMG LLP, and its opinion as to the basic financial statements, insofar as it relates to the amounts included in the basic financial statements pertaining to such activities, funds, and component units, is based solely on the reports of the other auditors. The report of KPMG LLP contains an emphasis paragraph for the adoption of

Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for the Insurance Recoveries*, as of June 30, 2006.

The Commonwealth Report includes important information about the Commonwealth, including information about its economy, historical revenues and expenditures of the Commonwealth's General Fund, the year-end results for the fiscal year 2007 budget, the fiscal year 2008 budget, and the debt of the Commonwealth's public sector, and should be read in its entirety. The Commonwealth Report and the Commonwealth's Annual Financial Report were filed by the Commonwealth with each nationally recognized municipal securities information repository ("NRMSIR") as *Appendix I* and *Appendix II*, respectively, to the 2007 A PIB Official Statement.

Any appendix of an Official Statement of the Commonwealth or of any instrumentality of the Commonwealth containing any revision to the Commonwealth Report, or to the Commonwealth's Annual Financial Report that is filed with each NRMSIR and the Municipal Securities Rulemaking Board ("MSRB"), or any new or revised Commonwealth Report or Commonwealth Annual Financial Report, or other document containing information that modifies or supersedes the information contained in the Commonwealth Report or in the Commonwealth's Annual Financial Report that is filed with each NRMSIR, in each case after the date hereof and prior to the termination of the offering of the Notes, shall be deemed to be incorporated by reference into this Official Statement and to be part of this Official Statement from the date of filing of such document. Any statement contained in the Commonwealth's Annual Financial Report or in the Commonwealth Report shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any such subsequently filed document modifies or supersedes such statement.

The Commonwealth will provide without charge to any person to whom this Official Statement is delivered, on the written or oral request of such person, a copy of the Commonwealth Report, the Commonwealth's Annual Financial Report, the Note Resolution and the Reimbursement Agreement. Requests should be directed to Director-New York Office, Government Development Bank for Puerto Rico, 666 Fifth Avenue, 15<sup>th</sup> Floor, New York, New York 10103-1599, telephone number (212) 422-6420 or to Director-General Obligations Division, Government Development Bank for Puerto Rico, P.O. Box 42001, San Juan, Puerto Rico 00940, telephone number (787) 722-7060.

A copy of the 2007 A PIB Official Statement, which contains the Commonwealth Report and the Commonwealth's Annual Financial Report, may also be obtained by contacting a NRMSIR. The address of each NRMSIR is set forth in *Continuing Disclosure* below. The Commonwealth expects that its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2007, including its audited general purpose financial statements for such fiscal year, will be available to investors during the first quarter of calendar year 2008. Promptly after its release, said report will be filed with and available from each NRMSIR.

This Official Statement, including information incorporated in this Official Statement by reference, contains certain "forward-looking statements" concerning the Commonwealth's operations and financial condition. These statements are based upon a number of assumptions and estimates which are subject to significant uncertainties, many of which are beyond the control of the Commonwealth. The words "may," "would," "could," "will," "expect," "anticipate," "believe," "intend," "plan," "estimate" and similar expressions are meant to identify these forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements.

## OVERVIEW

Puerto Rico is located approximately 1,600 miles southeast of New York City. According to the United States Census Bureau, its population was 3,808,610 in 2000. Puerto Rico's political status is that of a commonwealth. The United States and the Commonwealth share a common defense, market, currency and citizenship. The Commonwealth government exercises virtually the same control over its internal affairs as is exercised by the state governments of each of the fifty states over their respective internal affairs, with similar separation of powers among the executive, legislative and judicial branches. It differs from the states, however, in its relationship with the federal government. The people of Puerto Rico are citizens of the United States but do not vote in national elections. They are represented in Congress by a Resident Commissioner who has a voice in the House of Representatives but no vote. Most federal taxes, except those such as Social Security taxes, which are imposed by mutual consent, are not levied in Puerto Rico. No federal income

tax is collected from Puerto Rico residents on income earned in Puerto Rico, except for certain federal employees who are subject to taxes on their salaries. The official languages of Puerto Rico are Spanish and English.

Puerto Rico has a diversified economy with manufacturing and services comprising its principal sectors. Puerto Rico's economy is closely linked to the United States economy. In fiscal year 2006 (which ended on June 30, 2006), the Commonwealth's gross product (preliminary, in current dollars) was \$56.688 billion, and personal income per capita (preliminary, in current dollars) was \$12,997.

The Constitution of Puerto Rico limits the amount of general obligation debt that the Commonwealth can issue. The Commonwealth's policy has been and continues to be to maintain the level of such debt within a prudent range below the constitutional limitation.

Fiscal responsibility for the Commonwealth is shared among the Department of the Treasury, the Office of Management and Budget ("OMB") and Government Development Bank for Puerto Rico ("Government Development Bank" or the "Bank"). The Department of the Treasury is responsible for collecting most of the Commonwealth's revenues, overseeing preparation of its financial statements and contributing to the preparation of the budget. OMB prepares the Commonwealth's budget and is responsible for monitoring expenditures. Government Development Bank is the fiscal agent and financial advisor to the Commonwealth and its agencies, public corporations, and municipalities and coordinates the management of public finances.

Additional information about the Commonwealth can be found in the Commonwealth Report, including information about the economy, historical revenues and expenditures of the Commonwealth's General Fund, the estimated year-end results of fiscal year 2007, the budget for fiscal year 2008, and the debt of the Commonwealth's public sector. The Commonwealth Report should be read in its entirety.

## **RECENT DEVELOPMENTS**

This section summarizes and updates certain information about the Commonwealth's current fiscal situation appearing in the Commonwealth Report. This section should be read in conjunction with the information included in the Commonwealth Report, which shall be deemed modified to the extent the information provided therein is different from that appearing below.

Under Act No. 117 of the Legislature, approved on July 4, 2006, as amended (the "Sales Tax Act"), a general sales and use tax of 5.5% is imposed by the central government (the "Central Government Sales Tax") and of 1.5% is imposed by each municipality (the "Municipal Sales Tax" and, together with the Central Government Sales Tax, the "Sales Tax"). In general, the Municipal Sales Tax has the same tax base, exemptions (except for unprocessed foods) and limitations as those contained in the Central Government Sales Tax. The Sales Tax Act also provides certain income tax reductions to address the regressive effect of the Sales Tax on taxpayers in lower income tax brackets.

Pursuant to Act No. 91 of the Legislature, approved on May 13, 2006, as amended (the "Sales Tax Financing Corporation Act"), Puerto Rico Sales Tax Financing Corporation (the "Sales Tax Financing Corporation") was created for the purpose of refinancing certain debt obligations of the Commonwealth outstanding as of June 30, 2006, which obligations are payable solely from Commonwealth budgetary appropriations and are generally referred to as "extra constitutional debt."

Under the Sales Tax Financing Corporation Act, 1% of the 5.5% Central Government Sales Tax (subject to an annually inflated minimum amount if greater) is deposited by the Secretary of the Treasury upon receipt into the dedicated Sales Tax fund (the "Sales Tax Fund"), which is held and owned by the Sales Tax Financing Corporation separate and apart from the Commonwealth's General Fund. Amounts on deposit in the Sales Tax Fund are applied to the payment of debt issued by the Sales Tax Financing Corporation to refinance the above extra constitutional debt outstanding. On July 31, 2007, the Sales Tax Financing Corporation issued \$2,667,603,572.60 of Sales Tax Revenue Bonds, Series 2007 A and \$1,333,101,779.90 of Sales Tax Revenue Bonds, Series 2007 B, the proceeds of which were used as the first installment in the refinancing of the Commonwealth's extra constitutional debt.

On October 4, 2007, the Commonwealth issued \$408,800,000 of Public Improvement Bonds, Series 2007 A and \$91,200,000 of Public Improvement Bonds, Series 2007 B each under the provisions of Act No. 74 of the Legislature, approved on July 23, 2007, as amended by Act No. 115 of the Legislature, approved on August 31, 2007, Joint Resolution No. 116 of the Legislature, approved on July 23, 2007, and Joint Resolution No. 117 of the Legislature, approved on July 23, 2007. On October 16, 2007, the Commonwealth issued \$926,570,000 of Public Improvement Refunding Bonds, Series 2007 A (the "2007 A Refunding Bonds") and \$60,545,000 of Public Improvement Refunding Bonds, Series 2007 B each under the provisions of Act No. 52 of the Legislature, approved on October 10, 1985, and Joint Resolution No. 57 of the Legislature, approved on July 12, 1993.

## THE NOTES

*Set forth below is a narrative description of certain legislative and contractual provisions relating to the authorization of sources of payment and security for the Notes. These provisions have been summarized and this description does not purport to be complete. Reference should be made to the Act, the Note Resolution, the Letter of Credit, the Revolving Credit Agreement (as defined herein) and the Reimbursement Agreement, copies of which are available to potential purchasers of the Notes. See Introductory Statement.*

### General

The Notes are dated their date of delivery, mature on July 30, 2008 and bear interest at 4.25%. Interest is computed on the basis of twelve 30-day months and a 360-day year. The Notes are issuable in fully registered form in denominations of \$5,000 and any integral multiple thereof. The Notes are not subject to redemption prior to maturity. Principal of and interest on the Notes are payable in immediately available funds at maturity.

### Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York will act as securities depository for the Notes. The Notes will be issued as fully-registered Notes registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. Because the aggregate principal amount of the Notes exceeds \$500 million, one fully-registered Note certificate will be issued with respect to each \$500 million principal amount and an additional certificate will be issued with respect to any remaining principal amount, and all such Note certificates will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issuers of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has S&P's highest rating: "AAA." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note (a "Beneficial



Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the note documents. For example, Beneficial Owners may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Notes within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Banco Popular de Puerto Rico, Trust Division, as paying agent (the "Paying Agent"), on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, nor its nominee, the Paying Agent, or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Commonwealth or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Note certificates are required to be printed and delivered.

The Commonwealth may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

## **Payments and Transfers**

No assurance can be given by the Commonwealth that DTC will make prompt transfer of payments to the Participants or that Participants will make prompt transfer of payments to Beneficial Owners. The Commonwealth is not responsible or liable for payment by DTC or Participants or for sending transaction statements or for maintaining, supervising, or reviewing records maintained by DTC or Participants.

For every transfer and exchange of the Notes, the Beneficial Owners may be charged a sum sufficient to cover any tax, fee, or other charge that may be imposed in relation thereto.

## **Discontinuance of the Book-Entry Only System**

In the event that the book-entry only system is discontinued, the following provisions will apply: principal of and redemption premium, if any, on the Notes shall be payable in lawful money of the United States of America at the principal office of the Paying Agent in Hato Rey, Puerto Rico. Interest on the Notes will be payable by check mailed to the respective addresses of the registered owners determined as of the fifteenth (15<sup>th</sup>) day of the month preceding the interest payment date as shown on the registration books of the Commonwealth maintained by the Paying Agent. The Notes will be issued only as registered notes without coupons in denominations of \$5,000 or any integral multiple thereof. The transfer of the Notes will be registrable and they may be exchanged at the corporate trust office of the Paying Agent in Hato Rey, Puerto Rico, upon the payment of any taxes or other governmental charges required to be paid with respect to such transfer or exchange.

## **Authorization of Notes**

Section 2 of Article VI of the Constitution of Puerto Rico provides that the power of the Commonwealth to contract and to authorize the contracting of debts shall be exercised as determined by the Legislature. Pursuant to this power, the Legislature enacted the Act which authorizes the issuance of the Notes. The Notes are issued pursuant to the Act and the Note Resolution adopted by the Secretary of the Treasury and approved by the Governor. As part of the authorization process for the Notes, Government Development Bank, as financial advisor and fiscal agent to the Commonwealth, has reviewed and made its favorable recommendations as to the Notes.

## **Purpose of the Notes**

The Notes are being issued to (i) repay certain amounts borrowed by the Commonwealth under a line of credit provided by the Revolving Credit Banks and related note issued pursuant to the Act in advance of the issuance of the Notes, which amounts were borrowed to provide funds to pay the appropriations made for fiscal year 2008 in anticipation of the receipt of taxes and revenues required to be deposited in the Commonwealth's General Fund and estimated in the budget of the Commonwealth to be realized in cash during fiscal year 2008, and (ii) pay certain of the costs of issuance of the Notes (including certain fees associated with the Letter of Credit).

## Payment of and Security for the Notes

### Letter of Credit

The Notes are secured by and payable from the Letter of Credit issued by the Letter of Credit Banks, on a several and not joint basis, in the amount of the principal of and interest due on the Notes at maturity, pursuant to the Reimbursement Agreement. A form of the Letter of Credit is attached as *Appendix I* hereto. A description of each of the Letter of Credit Banks is attached as *Appendix III* hereto. Each of the Letter of Credit Banks has supplied the information relating to it included in *Appendix III*. Neither the Commonwealth nor the Underwriters make any representation as to the accuracy or completeness of the information contained in *Appendix III*. The Letter of Credit Banks may not assign their obligations under the Letter of Credit without (i) receipt of prior written confirmation from Moody's and S&P that the ratings on the Notes will not be suspended, withdrawn or lowered, (ii) the prior written consent of the Commonwealth, the Administrative Agent and each Letter of Credit Bank, and (iii) providing twenty-five (25) days prior written notice to the Paying Agent and the Secretary of the Treasury of any such assignment. The Paying Agent will, within five (5) days of its receipt of said notice from a Letter of Credit Bank, provide notice to the Noteholders of any such assignment.

The following table sets forth the names of the Letter of Credit Banks, the maximum amount of their several payment obligations under the Letter of Credit, the corresponding amount of interest that will accrue on such amounts until the Notes' maturity date (based on an interest rate of 4.25% accruing over a period of 269 days) and the percentage of their several payment obligations under the Letter of Credit:

<b>Name of Bank</b>	<b>Maximum Amount of Principal Secured</b>	<b>Interest to Accrue on Principal Secured</b>	<b>Maximum Amount of Principal and Interest Secured</b>	<b>Several Obligation</b>
THE BANK OF NOVA SCOTIA	\$202,000,000	\$6,414,902.78	\$208,414,902.78	20.00%
BNP PARIBAS	191,900,000	6,094,157.64	197,994,157.64	19.00%
DEXIA CREDIT LOCAL	191,900,000	6,094,157.64	197,994,157.64	19.00%
FORTIS BANK S.A./N.V.	151,500,000	4,811,177.08	156,311,177.08	15.00%
BANCO BILBAO VIZCAYA ARGENTARIA S.A.	141,400,000	4,490,431.94	145,890,431.94	14.00%
KBC BANK N.V.	101,000,000	3,207,451.39	104,207,451.39	10.00%
BANCO SANTANDER, S.A.	30,300,000	962,235.42	31,262,235.42	3.00%
	<b>\$1,010,000,000</b>	<b>\$32,074,513.89</b>	<b>\$1,042,074,513.89</b>	<b>100.00%</b>

Pursuant to the Letter of Credit, the Paying Agent is authorized and expected to present a draw on or prior to 10:00 a.m., New York time, on July 29, 2008, for payment on July 30, 2008, equal to the principal amount of the Notes, together with any accrued and unpaid interest thereon (the "Drawing"), to be deposited in a payment fund to be held by the Paying Agent solely for the benefit of the Noteholders. The Letter of Credit shall expire at 5:00 p.m., New York time, on the date which is the earliest of: (i) August 1, 2008, (ii) the date of payment of the Drawing by the Administrative Agent, on behalf of the Letter of Credit Banks, to the Paying Agent, (iii) the Administrative Agent's, on behalf of the Letter of Credit Banks, receipt of a cancellation certificate signed by a duly authorized officer of the Paying Agent, or (iv) the date when the Paying Agent surrenders the original of the Letter of Credit to the Administrative Agent on behalf of the Letter of Credit Banks, for cancellation.

The Notes are secured by and payable from (i) the Drawing pursuant to the Letter of Credit, and (ii) in the event one or more Letter of Credit Banks fail to honor their several portions of the Drawing Amount under the Letter of Credit, from the Note Fund. The Commonwealth's payment obligations relating to the Drawing shall be evidenced by a note of the Commonwealth issued pursuant to the Act and designated "Tax and Revenue Anticipation Note of the Commonwealth of Puerto Rico (Letter of Credit), Series 2008" (the "Letter of Credit Note"). The Letter of Credit Note shall be issued to The Bank of Nova Scotia, as the Administrative Agent for the Letter of Credit Banks, under the Reimbursement Agreement on the date of issuance of the Notes, and shall mature on the Notes' maturity date. The Letter of Credit Note, which is authorized by and shall be considered a note under the Act, will evidence draws made under the Letter of Credit for payment of the Notes and not a duplicate of such obligations.

Pursuant to the terms of a Revolving Credit Agreement dated as of June 28, 2007 (the "Revolving Credit Agreement"), The Bank of Nova Scotia, acting through its New York Agency, as Administrative Agent, and acting

through its Hato Rey Branch as a Bank; Banco Popular de Puerto Rico; BNP Paribas, acting through its San Francisco Branch, and Dexia Credit Local, acting through its New York Branch, each as Co-Agents and as Banks; Fortis Bank S.A./N.V., acting through its New York Branch; Banco Bilbao Vizcaya Argentaria S.A., acting through its New York Branch; Banco Bilbao Vizcaya Argentaria, Puerto Rico; KBC Bank N.V., acting through its New York Branch; and Banco Santander Puerto Rico (collectively, the "Revolving Credit Banks"), advanced to the Commonwealth funds to cover cash requirements in anticipation of the issuance of the Notes evidenced by a note maturing on July 30, 2008. A portion of the outstanding principal amount of approximately \$1.2 billion under the Revolving Credit Agreement and related note will be repaid from the proceeds of the Notes. The Revolving Credit Agreement and related note were authorized by a resolution adopted on June 27, 2007 by the Secretary of the Treasury and approved by the Governor.

***The Note Fund***

The payment obligations under the Notes, the Letter of Credit Note and the Revolving Credit Note are payable solely from the taxes and revenues in the General Fund collected by the Secretary of the Treasury after July 1, 2007 and on or prior to June 30, 2008 and deposited in the Note Fund as more fully described below. All moneys in the Note Fund required for such purpose shall be used on a *pari passu* basis to pay the amounts due under the Notes, Letter of Credit Note and the Revolving Credit Note, and shall be used for no other purpose; provided, however, that pursuant to certain constitutional and statutory authorizations, payments on general obligation bonds and notes of the Commonwealth and, on bonds and notes of its public corporations guaranteed by the Commonwealth, have a claim on Commonwealth taxes and revenues, including amounts on deposit in the Note Fund, prior to the claim thereon of the Notes, the Letter of Credit Note and the Revolving Credit Note.

After any required transfers from the General Fund to the Special Fund for the Amortization of General Obligations Evidenced by Bonds and Promissory Notes (the "Redemption Fund"), the Secretary of the Treasury, beginning on April 1, 2008, will withdraw from the General Fund all taxes and revenues required to be deposited therein from April 1, 2008 through June 30, 2008, together with any taxes and revenues collected after July 1, 2007 and then on deposit in the General Fund. Such taxes and revenues will be deposited in the Note Fund until the amount on deposit in the Note Fund by the last calendar day of the months indicated below equals the following percentages of the sum of (1) the principal of and interest on the Notes to be paid at maturity and (2) the outstanding principal balance of the Revolving Credit Note and accrued interest thereon to be paid from time to time as the same becomes due and payable (such sum being herein called the "Note Fund Requirement"):

<u>2008</u>	<u>Percentage of Note Fund Requirement</u>
April	33 $\frac{1}{3}$ %
May	66 $\frac{2}{3}$ %
June	100%

The Secretary of the Treasury covenants in the Note Resolution to compute on a cash basis on or before the tenth (10<sup>th</sup>) day of each month, commencing on November 10, 2007, projected taxes and revenues expected to be deposited in, expenditures from, and fund balances of the General Fund for each month remaining in fiscal year 2008. If, on the basis of such computations, the Secretary of the Treasury determines that the Note Fund Requirement less any amount then on deposit in the Note Fund equals or exceeds 85% of the sum of all taxes and revenues expected to be deposited in the General Fund from the later of the date of such determination and April 1, 2008 through June 30, 2008 after accounting for any required transfers from the General Fund to the Redemption Fund, the Secretary of the Treasury shall immediately withdraw sufficient amounts of taxes and revenues as received from the General Fund, shall make any required transfers to the Redemption Fund, and thereafter shall transfer to the Note Fund sufficient amounts of such taxes and revenues as received as will cause the amount on deposit in the Note Fund to equal the Note Fund Requirement.

Neither the full faith, credit and taxing power of the Commonwealth nor that of any of its political subdivisions are pledged for the payment of principal of or interest on the Notes, the Letter of Credit Note or the Revolving Credit Note.

## **Provision for Prior Payment of Full Faith and Credit Obligations of the Commonwealth**

The Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first lien on available Commonwealth taxes and revenues. Public debt includes bonds and notes of the Commonwealth to which the full faith, credit and taxing power of the Commonwealth are pledged and, according to opinions heretofore rendered by the Secretary of Justice of Puerto Rico, any payments which are required to be made by the Commonwealth under its guarantees of bonds and notes issued by its public corporations.

The Notes do not constitute public debt.

Under the provisions of Act No. 39 of the Legislature, approved on May 13, 1976, as amended, the Secretary of the Treasury is obligated to fund annual debt service on general obligation bonds and notes of the Commonwealth by monthly deposits into the Redemption Fund. As of October 18, 2007, the amount on deposit in the Redemption Fund was approximately \$45.2 million, which was the required amount. Fiscal year 2008 deposits from the General Fund to the Redemption Fund to fund the projected debt service through July 1, 2008 are expected to total \$450.7 million. In addition to moneys from the General Fund, the Redemption Fund receives a certain portion of moneys collected by the municipalities from property tax collections which portion for fiscal year 2008 is expected to total \$120.8 million.

Moneys in the Redemption Fund are not available to pay the Notes.

## **Debt Limitation with Respect to Full Faith and Credit Obligations**

Section 2 of Article VI of the Constitution of Puerto Rico provides that direct obligations of the Commonwealth evidenced by full faith and credit bonds or notes shall not be issued if the amount of the principal of and interest on such bonds and notes and on all such bonds and notes theretofore issued which is payable in any fiscal year, together with any amount paid by the Commonwealth in the preceding fiscal year on account of bonds or notes guaranteed by the Commonwealth, exceeds 15% of the average annual revenues raised under the provisions of Commonwealth legislation and covered into the Treasury of Puerto Rico (hereinafter "internal revenues") in the two fiscal years preceding the then-current fiscal year. Section 2 of Article VI does not limit the amount of debt that the Commonwealth may guarantee so long as the 15% limitation is not exceeded. Internal revenues consist principally of income taxes, property taxes, sales and use taxes and excise taxes. Certain revenues, such as federal excise taxes on offshore shipments of alcoholic beverages and tobacco products and customs duties, which are collected by the United States Government and returned to the Treasury of Puerto Rico, and motor vehicle fuel taxes and license fees, which are allocated to the Puerto Rico Highway Authority, are not included as internal revenues for the purpose of calculating the debt limit, although they may be available for the payment of debt service.

All or a portion of the proceeds of certain general obligation refunding bonds issued by the Commonwealth were invested in guaranteed investment contracts or federal agency securities (in each case rated in the highest rating category by Moody's and S&P), none of which is eligible to be used for legal defeasance under Puerto Rico law ("non-eligible investments"). Since general obligation bonds refunded with proceeds invested in non-eligible investments are not legally defeased, such bonds are treated as outstanding for purposes of the 15% constitutional debt limitation.

Joint Resolution No. 2104 of September 30, 2004 ("Joint Resolution No. 2104"), authorized the Commonwealth to enter into interest rate exchange agreements with respect to the Commonwealth's \$447,875,000 Public Improvement Refunding Bonds, Series 2004 B (the "Series 2004 B Bonds"), which were issued as variable rate bonds. Joint Resolution No. 2104 allows the Commonwealth to calculate the constitutional debt limitation using (i) the fixed rate it is required to pay under any interest rate exchange agreements entered into by the Commonwealth in connection with the Series 2004 B Bonds, and (ii) the lesser of (A) the maximum interest rate allowed by law and (B) the maximum interest rate set forth in the resolution approving the bonds, if any, in connection with the Commonwealth's \$279,240,000 Public Improvement Refunding Bonds, Series 2004 A (the "Series 2004 A Bonds") and any Series 2004 B Bonds for which no interest rate exchange agreement is executed. In November 2004, the Commonwealth entered into two interest rate exchange agreements with respect to the Series 2004 B Bonds. In addition, in connection with the issuance of the portion of the 2007 A Refunding Bonds bearing interest at floating interest rates (collectively, the "2007 A variable rate bonds"), the Commonwealth will enter into certain interest rate exchange agreements, the effect of which will economically enable the Commonwealth to pay an estimated fixed rate of interest in respect of the 2007 A variable rate bonds.

Future maximum annual debt service for the Commonwealth's outstanding general obligation debt is \$859,632,840 in the fiscal year ending June 30, 2020 (based on the assumption that (i) the bonds refunded with non-eligible investment are treated as being outstanding, (ii) the Series 2004 A Bonds bear interest at their actual rate per annum through July 1, 2012 and thereafter at 12% per annum, and (iii) the Series 2004 B Bonds, the variable rate bonds issued as part of the Public Improvement Bonds of 2006, Series A (the "CPI Bonds") and the 2007 A variable rate bonds bear interest at 12% per annum. The sum of those amounts, \$859,632,840, is equal to 10.3% of \$8,344,210,500, which is the average of the adjusted internal revenues for the fiscal year ended June 30, 2006 and the currently estimated adjusted internal revenues for the fiscal year ended June 30, 2007. If the bonds refunded with non-eligible investments were treated as not being outstanding, and the interest on the Series 2004 B Bonds, the CPI Bonds and the 2007 A variable rate bonds is calculated using the fixed rate paid by the Commonwealth under the interest rate exchange agreements executed in connection with such bonds, the percentage referred to in the preceding sentence would be 8.63%.

Debt service for the Puerto Rico Aqueduct and Sewer Authority ("PRASA") guaranteed bonds of approximately \$30 million was paid by PRASA during each of the last two fiscal years and, thus, is not included in the calculation of the 15% debt limitation. See "Other Public Corporations – Aqueduct and Sewer Authority" under *Public Corporations* in the Commonwealth Report. In the event PRASA is unable to make any portion of the future debt service payments on its guaranteed bonds, the Commonwealth would be required to make such payments under its guarantee from the General Fund and such debt service would, to the extent to be paid by the Commonwealth, be included in the calculation of the 15% debt limitation.

The Notes are not subject to the above described constitutional debt limitation.

### **Estimated Note Revenues**

The Commonwealth estimates that the taxes and revenues available for deposit in the Note Fund for fiscal year 2008 (consisting of taxes and revenues projected to be collected after the date of issuance of the Notes and prior to June 30, 2008, minus required deposits to the Redemption Fund) will be approximately \$6.365 billion. For fiscal year 2007, taxes and revenues which would have been available for deposit in the Note Fund were approximately \$5.957 billion.

### **Debt Limitation with Respect to Additional Parity Notes**

The aggregate principal amount of notes issued under the Act with respect to any fiscal year and outstanding at any time shall not exceed, at the date such notes are issued, the lesser of (i) \$1.5 billion and (ii) eighteen percent (18%) of the net revenues of the General Fund for the previous fiscal year. Preliminary net revenues for fiscal year 2007 amounted to \$8.890 billion, such that the aggregate principal amount of notes issued under the Act during fiscal year 2008 shall not exceed \$1.5 billion. The Act provides that any notes issued thereunder shall mature on such date or dates not exceeding thirty (30) days after the close of the fiscal year in which such notes are issued. The Commonwealth has issued notes under the Act for prior fiscal years, which notes have since matured and been paid in full. Under the Note Resolution, the Commonwealth covenants not to create or suffer to be created any lien or charge upon the revenues in the Note Fund ranking equally or prior to the Notes, the Letter of Credit Note and the Revolving Credit Note. The aggregate principal amount of the Notes and the Revolving Credit Note shall not exceed the maximum permitted under the Act.

### **Payment Record**

The Commonwealth has never defaulted on the payment of principal of or interest on any of its debt.

### **General Fund Monthly Cash Flow for Fiscal Year 2007 and Fiscal Year 2008**

The Secretary of the Treasury has custody of the funds of the Commonwealth's central government and is responsible for the accounting, disbursement and investment of such funds. The General Fund is the primary operating fund of the Commonwealth. General Fund revenues are broadly based and include revenues raised internally as well as those from non-Puerto Rico sources. Internal revenues consist principally of income taxes and Sales Taxes in substitution of certain excise taxes. Revenues from non-Puerto Rico sources are derived from federal excise taxes and customs duties returned to the Commonwealth. The primary expenditures of the Commonwealth through the General Fund are for grants and subsidies, and personal and other services. A detailed description of the Commonwealth's major

sources of General Fund revenues and components of General Fund expenditures, along with a Summary and Management's Discussion of the General Fund Results for fiscal years 2004 through 2006, a discussion of the preliminary fiscal year 2007 results and a comparison of the fiscal year 2008 budget with the preliminary fiscal year 2007 results, appears under *Puerto Rico Taxes, Other Revenues, and Expenditures* in the Commonwealth Report.

The tables which follow set forth the actual monthly cash flow for the Commonwealth General Fund for fiscal year 2007 and the estimated monthly cash flow for fiscal year 2008. The monthly cash flow for fiscal 2007 is preliminary and does not take into account any audit adjustments.

The monthly cash flow estimates for fiscal year 2008 are based upon the constitutionally-mandated budget for fiscal year 2008 and upon historical experience as adjusted to reflect economic conditions, statutory and administrative changes and anticipated payment dates for grants and subsidies, personal and other services, materials and supplies, equipment, capital outlays, debt service and transfers. These estimates are based on present circumstances and currently available information and are believed to be reasonable. Such estimates may be affected by numerous factors, including the continuing validity of the assumptions underlying the estimates, and there can be no assurance that such estimates will be achieved.

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**Commonwealth of Puerto Rico**  
**Preliminary General Fund Cash Flows**  
**Fiscal Year 2006-2007**  
(in thousands)

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Beginning Cash Balance</b>	\$ -	\$ 202,431	\$ 64,715	\$ 28,721	\$ 197,181	\$ 228,989	\$ 333,420	\$ 245,914	\$ 85,758	\$ 14,578	\$ (122,300)	\$ (514,314)	\$ -
<b>Receipts:</b>													
Income taxes	482,576	381,304	580,677	375,907	355,963	581,116	384,345	263,175	391,311	1,125,702	419,511	892,749	6,234,336
Commonwealth excise taxes	111,171	120,578	125,044	118,866	107,061	84,868	72,529	64,476	65,635	97,777	72,182	83,753	1,123,940
Inheritance and gift taxes	1,042	247	108	396	299	713	280	213	203	179	103	880	4,663
Sales and use tax	-	-	-	-	41,100	90,000	77,700	70,500	78,900	70,100	77,400	76,860	582,560
Licenses	5,189	5,656	11,397	23,533	8,786	7,920	6,478	4,900	4,703	6,059	7,392	6,581	98,594
Other internal sources	24,463	29,984	36,211	50,697	26,054	52,564	53,833	22,088	44,537	29,216	38,872	50,396	458,915
Non-Commonwealth sources	22,593	35,390	22,478	26,340	22,445	38,207	45,632	62,577	13,141	18,300	14,695	65,241	387,039
Subtotal receipts	647,034	573,159	775,915	595,739	561,708	855,388	640,797	487,929	598,430	1,347,333	630,155	1,176,460	8,890,047
Other income (refunds) <sup>(a)</sup>	(98,897)	31,602	30,806	34,495	39,943	37,701	51,202	38,083	(3,689)	9,126	37,579	(216,286)	(8,335)
(Transfer) Refunding to Redemption Fund <sup>(b)</sup>	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,683)	(42,684)	(512,197)
Proceeds of notes and other borrowings <sup>(c)</sup>	600,000	-	-	872,096 (e)	400,000	-	-	-	-	-	-	-	1,872,096
Repayment of notes and other borrowings <sup>(d)</sup>	(328)	(3,857)	(3,300)	(603,374)	-	(1,937)	(2,141)	(2,001)	(2,100)	(703,849)	(301,693)	(301,693)	(1,926,273)
Total available cash from operations	1,105,126	558,221	760,738	856,273	958,968	848,469	647,175	481,328	549,958	609,927	323,358	615,797	8,315,338
<b>Disbursements:</b>													
Grants and subsidies	525,011	188,929	286,105	231,835	369,960	339,610	267,187	131,612	297,812	284,963	292,880	171,295	3,387,199
Personal services	321,432	395,905	389,712	404,436	510,894	369,121	377,053	365,028	362,095	397,922	352,570	344,795	4,590,962
Other services	23,274	76,587	83,141	43,464	28,763	28,933	78,757	36,321	45,114	44,016	58,064	47,912	594,345
Materials and supplies	1,492	2,610	5,945	7,021	5,628	5,966	9,477	7,298	8,816	9,651	10,776	4,505	79,186
Equipment purchases	563	983	905	1,057	11,915	408	2,207	1,225	2,495	1,262	1,049	3,896	27,965
Other debt service and capital outlays	-	-	-	-	-	-	-	-	4,806	8,991	34	7,745	21,576
PY Other disbursements	30,923	30,923	30,924	-	-	-	-	-	-	-	-	-	92,770
Total disbursements	902,695	695,937	796,732	687,813	927,160	744,038	734,681	541,484	721,138	746,804	715,373	580,148	8,794,003
Total available cash less transfers and disbursements	202,431	(137,716)	(35,994)	168,460	31,808	104,431	(87,506)	(60,156)	(171,180)	(136,877)	(392,015)	35,649	(478,665)
<b>Ending Cash Balance</b>	\$ 202,431	\$ 64,715	\$ 28,721	\$ 197,181	\$ 228,989	\$ 333,420	\$ 245,914	\$ 185,758	\$ 14,578	\$ (122,300)	\$ (514,314)	\$ (478,665)	\$ (478,665)

(a) Consists of net revenue from General Fund's non-budgetary funds plus a reserve for future tax refunds reduced by actual and estimated tax refunds.  
(b) Consists of amounts to pay principal of and interest on general obligation bonds of the Commonwealth. Does not include amounts directly to the Redemption Fund from non-General Fund revenues.  
(c) Consists of proceeds of borrowing from the private Bank Syndicate and proceeds from Commonwealth's Tax and Revenue Anticipation Notes.  
(d) Consists of amounts of repayments of borrowing from the private Bank Syndicate and repayments of Commonwealth's Tax and Revenue Anticipation Notes.  
(e) Proceeds from Commonwealth's Tax and Revenue Anticipation Notes, Series 2007, net of costs of issuance.



**Commonwealth of Puerto Rico**  
**Estimated General Fund Cash Flows**  
**Fiscal Year 2007-2008**  
**(in thousands)**

	July	August	September	October	November	December	January	February	March	April	May	June	Total
<b>Beginning Cash Balance</b>	\$ (478,665) <sup>(a)</sup>	\$ 49,172	\$ (13,618)	\$ 300,470	\$ 399,079	\$ 241,949	\$ 369,010	\$ 342,427	\$ 207,688	\$ 196,763	\$ 156,347	\$ (229,770)	\$ (478,665)
<b>Receipts:</b>													
Income taxes	431,400	374,500	566,200	413,800	369,500	613,700	494,300	328,000	512,100	1,082,900	430,200	670,400	6,287,000
Commonwealth excise taxes	64,700	70,800	70,000	75,900	81,900	92,500	76,400	67,100	78,300	93,300	76,900	91,200	939,000
Inheritance and gift taxes	300	400	300	400	300	300	300	300	300	400	300	400	4,000
Sales and use tax	- <sup>(b)</sup>	- <sup>(b)</sup>	78,700	92,600	95,900	119,900	89,000	84,600	89,200	88,600	95,400	77,100	911,000
Licenses	4,800	5,800	12,600	31,800	9,500	6,400	6,300	5,200	7,500	5,700	4,800	6,600	107,000
Other internal sources	29,300	29,700	42,400	29,300	32,100	62,700	28,700	27,400	46,500	30,700	34,300	60,900	454,000
Non-Commonwealth sources	28,000	33,700	37,200	31,400	31,800	38,100	27,700	27,000	29,300	28,700	33,500	28,600	375,000
Subtotal receipts	558,500	514,900	807,400	675,200	621,000	933,600	722,700	539,600	763,200	1,330,300	675,400	935,200	9,077,000
Other sources <sup>(c)</sup>	-	-	-	6,000	10,000	59,000	12,500	12,500	12,500	12,500	12,500	12,500	150,000
Other income (refunds) <sup>(d)</sup>	43,500	43,500	43,500	43,500	43,500	43,500	43,500	34,381	(48,038)	(73,651)	(5,513)	(211,679)	-
(Transfer) Refunding to Redemption Fund <sup>(e)</sup>	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(37,558)	(450,702)
Proceeds of notes and other borrowings <sup>(f)</sup>	800,000	1,000,000	200,000	100,000	1,010,000	-	-	-	-	-	-	-	2,210,000
Repayment of notes and other borrowings <sup>(g)</sup>	(3,918)	(4,310)	(4,944)	(6,344)	(1,010,895)	(925)	(1,180)	(836)	(925)	(539,480)	(348,155)	(348,155)	(2,270,069)
Total available cash from operations	1,360,524	616,532	1,008,398	780,798	636,047	997,617	739,962	548,087	689,179	692,111	296,674	350,302	8,716,229
<b>Disbursements:</b>													
Grant and subsidies	285,840	176,374	207,450	139,102	172,959	241,817	199,790	155,234	176,514	168,898	173,591	164,946	2,262,516
Personal services	475,381	432,315	426,159	457,682	526,161	537,987	461,185	437,086	456,843	502,044	444,825	435,016	5,592,684
Other services	44,858	50,945	33,426	68,941	56,218	50,640	70,113	65,509	35,226	34,369	45,338	37,411	592,994
Materials and supplies	9,612	14,119	18,740	12,434	7,877	14,133	10,664	20,177	14,151	15,490	17,297	7,231	161,924
Equipment purchases	16,995	5,569	6,847	3,944	2,832	4,578	3,546	4,313	4,052	2,050	1,703	6,327	62,757
Other debt service and capital outlays	-	-	1,689	85	27,130	21,401	21,247	508	13,318	9,676	36	8,335	103,424
Total disbursements	832,687	679,322	694,311	682,188	793,176	870,556	766,545	682,826	700,104	732,527	682,790	659,266	8,776,298
Total available cash less transfers and disbursements	527,837	(62,789)	314,088	98,609	(157,130)	127,061	(26,583)	(134,739)	(10,925)	(40,416)	(386,116)	(308,964)	(60,069)
<b>Ending Cash Balance</b>	\$ 49,172	\$ (13,618)	\$ 300,470	\$ 399,079	\$ 241,949	\$ 369,010	\$ 342,427	\$ 207,688	\$ 196,763	\$ 156,347	\$ (229,770)	\$ (538,734)	\$ (538,734)
<b>Ending cash balance without considering TRANS<sup>(h)</sup></b>	\$ (746,910)	\$ (905,390)	\$ (786,358)	\$ (781,405)	\$ (937,639)	\$ (809,653)	\$ (835,056)	\$ (968,960)	\$ (978,959)	\$ (479,895)	\$ (517,856)	\$ (478,665)	\$ (478,665)

(a) This amount includes fiscal year 2006 and fiscal year 2007 cash deficits, the latter of which (the 2007 cash deficit) does not take into account the potential application of approximately \$260 million of special tax measures, which the Secretary of the Treasury has requested that the Legislature assign toward such deficit.  
(b) Pursuant to the Sales Tax Financing Corporation Act, a certain amount of the Sales Tax Fund prior to deposit into the General Fund, thus the \$0 balance in the first two months of fiscal year 2008.  
(c) Includes \$150 million related to sale of properties.  
(d) Consists of net revenue from General Fund's non-budgetary funds plus a reserve for future tax refunds reduced by actual and estimated tax refunds.  
(e) Consists of amounts to pay principal of and interest on general obligation bonds of the Commonwealth. Does not include amounts deposited into the Redemption Fund from non-General Fund revenues.  
(f) Consists of proceeds of borrowing from the private Bank Syndicate and proceeds from Commonwealth's Tax and Revenue Anticipation Notes.  
(g) Consists of amount of repayments of borrowing from the private Bank Syndicate and repayments of Commonwealth's Tax and Revenue Anticipation Notes.  
(h) Amount is net of cost of issuance.

## **Inter-Fund Borrowings**

The Commonwealth historically has used inter-fund borrowings to meet temporary imbalances of receipts and disbursements in the General Fund. Act No. 147 of the Legislature, approved on June 18, 1980, provides that in any fiscal year where revenues of the General Fund are not sufficient to meet approved appropriations for such year, the Governor may authorize the Secretary of the Treasury to borrow funds from Government Development Bank and, if necessary, from any funds of the Commonwealth under his custody, on such terms and conditions as the Secretary of the Treasury deems advisable. Funds available for this purpose do not include public pension funds and funds of public employees' associations. No moneys are currently borrowed from Government Development Bank under this Act 147. Moneys so borrowed must be repaid as soon as there is sufficient money in the General Fund to do so. Moneys borrowed and repaid by the General Fund are accounted for as "Operating Transfers In" and "Operating Transfers Out," respectively, in the financial statements of the Commonwealth and included in certain revenue and expenditure line items in the table entitled "General Fund Revenues, Expenditures, and Changes in Cash Balance" in "Summary and Management's Discussion of General Fund Results" under *Puerto Rico Taxes, Other Revenues, and Expenditures* in the Commonwealth Report.

As of October 18, 2007, funds aggregating approximately \$30.2 million under the custody of the Secretary of the Treasury were available for inter-fund borrowings, if necessary.

## **TAX MATTERS**

In the opinion of Squire, Sanders & Dempsey L.L.P., Bond Counsel, under existing law: (i) interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (ii) the Notes and the interest thereon are exempt from state, Commonwealth and local income taxation. Bond Counsel will express no opinion as to any other tax consequences regarding the Notes.

The opinion on tax matters will be based on and will assume the accuracy of certain representations and certifications, and continuing compliance with certain covenants, of the Commonwealth contained in the transcript of proceedings and that are intended to evidence and assure the foregoing, including that the Notes are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of the Commonwealth's certifications and representations or the continuing compliance with the Commonwealth's covenants.

The opinion of Bond Counsel is based on current legal authority and covers certain matters not directly addressed by such authority. It represents Bond Counsel's legal judgment as to exclusion of interest on the Notes from gross income for federal income tax purposes but is not a guaranty of that conclusion. The opinion is not binding on the Internal Revenue Service ("IRS") or any court. Bond Counsel expresses no opinion about (i) the effect of future changes in the Code and the applicable regulations under the Code or (ii) the interpretation and the enforcement of the Code or those regulations by the IRS.

The Code prescribes a number of qualifications and conditions for the interest on state and local government obligations to be and to remain excluded from gross income for federal income tax purposes, some of which require future or continued compliance after issuance of the obligations. Noncompliance with these requirements by the Commonwealth may cause the loss of such status and result in the interest on the Notes being included in gross income for federal income tax purposes retroactively to the date of issuance of the Notes. The Commonwealth has covenanted, to the extent permitted by the Constitution and the laws of the Commonwealth, to take the actions required of it for the interest on the Notes to be and to remain excluded from gross income for federal income tax purposes, and not to take any actions that would adversely affect that exclusion. After the date of issuance of the Notes, Bond Counsel will not undertake to determine (or to so inform any person) whether any actions taken or not taken, or any events occurring or not occurring, or any other matters coming to Bond Counsel's attention, may adversely affect the exclusion from gross income for federal income tax purposes of interest on the Notes or the market prices of the Notes. Bond Counsel is not aware of any provision of the Constitution or laws of the Commonwealth that would prevent the Commonwealth from complying with the requirements of the Code.

A portion of the interest on the Notes earned by certain corporations may be subject to a federal corporate alternative minimum tax. In addition, interest on the Notes may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

Under the Code, the exclusion of interest from gross income for federal income tax purposes may have certain adverse federal income tax consequences on items of income, deduction or credit for certain taxpayers, including financial institutions, certain insurance companies, recipients of Social Security and Railroad Retirement benefits, those that are deemed to incur or continue indebtedness to acquire or carry tax-exempt obligations, and individuals otherwise eligible for the earned income tax credit. The applicability and extent of these and other tax consequences will depend upon the particular tax status or other tax items of the owner of the Notes. Bond Counsel will express no opinion regarding those consequences.

Ownership of tax-exempt obligations, including the Notes, may also result in collateral income tax consequences under Puerto Rico law to financial institutions doing business in Puerto Rico.

Legislation affecting tax-exempt obligations is regularly considered by the United States Congress. There can be no assurance that legislation enacted or proposed, or actions by a court, after the date of issuance of the Notes, will not have an adverse effect on the tax status of interest on the Notes or the market value of the Notes.

On May 21, 2007, the United States Supreme Court agreed to hear *Dep't of Revenue of Kentucky v. Davis*. In the *Davis* case, the Kentucky Court of Appeals held that Kentucky's exemption from taxation of interest on bonds issued by Kentucky and its political subdivisions and its taxation of interest on bonds issued by other states and their political subdivisions violates the Commerce Clause of the United States Constitution. This ruling does not apply directly to bonds and notes of the Commonwealth (including the Notes) because the interest on those bonds and notes is exempt from state and local income taxation by virtue of federal law. If the United States Supreme Court sustains the *Davis* decision, however, one possible outcome could be that states with income tax laws similar to Kentucky's would cease to tax interest on bonds and notes of other states and adversely affect the market value of the Notes, as such legislation could reduce the current tax advantage of bonds and notes of the Commonwealth. It is not possible to predict how the United States Supreme Court will decide the *Davis* case or to predict any change in state law that would be occasioned by the affirmance of the *Davis* decision, nor is it possible to predict the effect, if any of that affirmance or any change in state law on the market value of the Notes.

Prospective purchasers of the Notes should consult their own tax advisers regarding pending or proposed federal and state tax legislation, the *Davis* case, and other court proceedings, and prospective purchasers of the Notes at other than their original issuance at the price indicated on the cover of this Official Statement should also consult their tax advisers regarding other tax considerations such as the consequences of market discount, as to all of which Bond Counsel expresses no opinion.

Bond Counsel's engagement with respect to the Notes ends with the issuance of the Notes, and, unless separately engaged, Bond Counsel is not obligated to defend the Commonwealth or the beneficial owners regarding the tax status of interest on the Notes in the event of an audit examination by the IRS. The IRS has a program to audit tax-exempt obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the IRS does audit the Notes, under current IRS procedures, the IRS will treat the Commonwealth as the taxpayer and the beneficial owners of the Notes will have only limited rights, if any, to obtain and participate in judicial review of such audit. Any action of the IRS, including but not limited to selection of the Notes for audit, or the course or result of such audit, or an audit of other obligations presenting similar tax issues, may affect the market prices for the Notes.

### **Original Issue Premium**

The Notes were offered and sold to the public at a price in excess of their stated redemption price (the principal amount) at maturity. That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Note, based on the yield to maturity of that Note, compounded semiannually. No portion

of that bond premium is deductible by the owner of a Note. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Note, the owner's tax basis in the Note is reduced by the amount of bond premium that accrues during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Note for an amount equal to or less than the amount paid by the owner for that Note. A purchaser of a Note in the initial public offering at the price for that Note stated on the cover of this Official Statement who holds that Note to maturity will realize no gain or loss upon the retirement of that Note.

Owners of Notes should consult their own tax advisers as to the determination for federal income tax purposes of the amount of bond premium properly accruable in any period with respect to the Notes and as to other federal tax consequences and the treatment of bond premium for purposes of state, Commonwealth and local taxes on, or based on, income.

## **LEGAL MATTERS**

The proposed form of opinion of Squire, Sanders & Dempsey L.L.P., Miami, Florida, Bond Counsel, is set forth in *Appendix II* to this Official Statement. Certain legal matters will be passed upon for the Underwriters by Quiñones & Sánchez PSC, San Juan, Puerto Rico. Certain legal matters will be passed on for the Letter of Credit Banks by Chapman and Cutler LLP, Chicago, Illinois.

## **LEGAL INVESTMENT**

The Notes will be eligible for deposit by banks in Puerto Rico to secure public funds and will be approved investments for insurance companies to qualify them to do business in Puerto Rico, as required by law.

## **UNDERWRITING**

The Underwriters have jointly and severally agreed, subject to certain conditions, to purchase the Notes from the Commonwealth at an aggregate discount of \$995,997.83 from the initial offering price of the Notes. The obligations of the Underwriters are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all the Notes, if any Notes are purchased. The Underwriters may offer to sell the Notes to certain dealers (including dealers depositing the Notes into unit investment trusts, certain of which may be sponsored or managed by the Underwriters) and others at prices lower than the initial public offering price, and such offering price may be changed, from time to time, by the Underwriters.

BBVAPR Division de Valores Municipales ("BBVAPR MSD") and RBC Dain Rauscher, Inc., doing business under the name RBC Capital Markets ("RBC"), have entered into an agreement to jointly pursue underwritings with the Commonwealth and its issuers. In furtherance of the agreement, BBVAPR MSD and RBC will form a joint account and will allocate the agreed participations in any bond offering to one another.

Popular Securities, Inc. ("Popular") has entered into a joint venture agreement (the "JV Agreement") with Morgan Stanley & Co. Incorporated ("Morgan Stanley"), under which the parties shall provide services and advice to each other related to the structuring and execution of certain municipal finance transactions in the U.S. capital markets with governmental entities located in the Commonwealth. Pursuant to the terms of the JV Agreement and in compliance with applicable rules, the parties will be entitled to receive a portion of each other's net profits from the underwriting of the Notes as consideration for their professional services.

Santander Securities Corporation ("SSC") and Banc of America Securities LLP ("BAS") have entered into an agreement to jointly pursue municipal securities underwriting opportunities with the Commonwealth, its agencies, municipalities and governmental conduit issuers in the Commonwealth. Under the agreement SSC and BAS will be entitled to receive a portion of each other's revenues from the underwriting of the Notes in consideration for their professional services.

Oriental Financial Services Corporation ("OFS") and Bear, Stearns & Co., Inc. ("Bear Stearns") have entered into a joint venture agreement under which the parties shall provide services and advice to each other and take risk

related to the structuring and execution of certain municipal finance transactions with governmental entities located in the Commonwealth. Pursuant to the terms of such joint venture agreement and in compliance with applicable rules, the parties will be entitled to receive a portion of each other's net profits from the underwriting of the Notes as consideration for their professional services.

Loop Capital LLC ("LC") and TCM Capital, Inc. ("TCM") have entered into an agreement to jointly pursue municipal securities underwriting opportunities with the Commonwealth, its agencies, municipalities and governmental conduit issuers in the Commonwealth. Under the agreement LC and TCM will be entitled to receive a portion of each other's revenues from the underwriting of the Notes in consideration for their professional services.

J.P. Morgan Securities Inc. ("JPMSI") and Scotia Capital (USA) Inc. ("SCUSA") have entered into an agreement to assist the Commonwealth, its public corporations, agencies, instrumentalities, and municipalities in structuring and facilitating the issuance of their municipal securities. For each issuance of municipal securities for which both parties act as co-senior manager or co-manager, any sales commissions or takedowns shall be allocated based on actual sales of municipal securities by JPMSI or SCUSA.

### **GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

As required by Act No. 272 of the Legislature, approved on May 15, 1945, as amended, Government Development Bank has acted as financial advisor to the Commonwealth in connection with the Notes.

As financial advisor, Government Development Bank participated in the selection of the Underwriters of the Notes. Certain of the Underwriters have been selected by Government Development Bank to serve from time to time as underwriters of its obligations and the obligations of the Commonwealth, its instrumentalities and public corporations. Certain of the Underwriters or their affiliates participate in other financial transactions with Government Development Bank.

### **RATINGS**

Moody's and S&P have given the Notes ratings of MIG 1 and SP-1+, respectively, after taking into account the security provided by the Letter of Credit. The ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained only from the respective rating agency. Such rating agencies were provided with materials relating to the Commonwealth and the Notes and other relevant information, and no application has been made to any other rating agency for the purpose of obtaining a rating on the Notes.

There is no assurance that such ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating agencies, if in the judgment of either or both, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Notes.

### **CONTINUING DISCLOSURE**

In accordance with the requirements of Rule 15c2-12, as amended (the "Rule"), promulgated by the U.S. Securities and Exchange Commission, the Commonwealth has covenanted for the benefit of the Underwriters and beneficial owners (generally the tax owners of the Notes as follows):

To file in a timely manner, with each NRMSIR or with the MSRB, and with any Commonwealth and state information depository ("SID"), notice of the occurrence of any of the following events with respect to the Notes, if material:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse opinions or events affecting the tax-exempt status of Notes;
- (g) modifications to rights of the holders (including beneficial owners) of the Notes;
- (h) Note calls;
- (i) defeasances;
- (j) release, substitution, or sale of property securing repayment of the Notes; and
- (k) rating changes.

Events (c), (d) and (e) are included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers, dated September 19, 1995. Event (c) may not be applicable, since the terms of the Notes do not provide for "debt service reserves." Events (h) and (i) are not applicable since the terms of the Notes and the Note Resolution do not contain any "call" or "defeasance" provisions. In addition, with respect to the following events:

Events (d) and (e). The Commonwealth does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes, unless the Commonwealth applies for or participates in obtaining the enhancement.

Event (f). For information on the tax status of the Notes, see "*Tax Matters*."

The Commonwealth may from time to time choose to provide notice of the occurrence of certain other events in addition to those listed above if, in the judgment of the Commonwealth, such other events are material with respect to the Notes, but the Commonwealth does not undertake to provide any such notice of the occurrence of any material event except those events listed above.

The Commonwealth has made similar continuing disclosure covenants in connection with prior securities issuances, and has complied with all such covenants, except as follows. The Commonwealth's audited financial statements for the fiscal year ended June 30, 2002 were filed after the Commonwealth's filing deadline of May 1, 2003, because of delays in finalizing such financial statements resulting from the implementation of Governmental Accounting Standards Board Statement No. 34 ("GASB 34"). The Commonwealth's audited financial statements for the fiscal year ended June 30, 2003 were also filed after the Commonwealth's filing deadline of April 30, 2004, because of delays in finalizing the financial statements of certain of the Commonwealth's reporting units due to the implementation of GASB 34. The Commonwealth's audited financial statements for the fiscal years ended June 30, 2004 and 2006 were also filed after the Commonwealth's respective filing deadlines of May 1, 2005 and 2007, because various governmental agencies did not submit their audited financial statements to the central government's external auditors on time, thereby delaying submission of the Commonwealth's audited financial statements. The Commonwealth's annual financial statements were filed with each NRMSIR on August 16, 2007, and an amended and restated version thereof was filed with each NRMSIR on September 13, 2007.

As of the date of this Official Statement, there is no Commonwealth SID, and the name and address of each NRMSIR is: Bloomberg Municipal Repository, 100 Business Park Drive, Skillman, New Jersey 08558; Standard & Poor's Securities Evaluations, Inc., 55 Water Street, 45th Floor, New York, New York 10041; FT Interactive Data, Attn:

NRMSIR, 100 William Street, New York, New York 10038; and DPC Data Inc., One Executive Drive, Fort Lee, New Jersey 07024.

The Commonwealth acknowledges that its undertakings pursuant to the Rule described above are intended to be for the benefit of the beneficial owners of the Notes, and shall be enforceable by any such beneficial owners; provided that the right to enforce the provisions of its undertaking shall be limited to a right to obtain specific enforcement of the Commonwealth obligations thereunder.

No beneficial owner may institute any suit, action or proceeding at law or in equity ("Proceeding") for the enforcement of the foregoing covenants (the "Covenants") or for any remedy for breach thereof, unless such beneficial owner shall have filed with the Commonwealth written notice of any request to cure such breach, and the Commonwealth shall have refused to comply within a reasonable time. All Proceedings shall be instituted only in a Commonwealth court located in the Municipality of San Juan, for the equal benefit of all beneficial owners of the outstanding Notes benefited by the Covenants, and no remedy shall be sought or granted other than specific performance of the Covenant at issue. Proceedings filed by beneficial owners against the Commonwealth may be subject to the sovereign immunity provisions of Section 2 and 2A of Act No. 104, approved on June 29, 1955, as amended, which governs the scope of legal actions against the Commonwealth, substantially limits the amount of monetary damages that may be awarded against the Commonwealth and provides certain notice provisions, the failure to comply with which may further limit any recovery.

The Covenants may only be amended if:

(1) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Commonwealth, or type of business conducted; the Covenants, as amended, would have complied with the requirements of the Rule at the time of award of the Notes, after taking into account any amendments or change in circumstances; and the amendment does not materially impair the interests of beneficial owners, as determined by parties unaffiliated with the Commonwealth; or

(2) all or any part of the Rule, as interpreted by the staff of the SEC at the date of the adoption of such Rule, ceases to be in effect for any reason, and the Commonwealth elects that the Covenant shall be deemed amended accordingly.

Any assertion of beneficial ownership must be filed, with full documentary support, as part of the written request described above. The Covenants have been made in order to assist the Underwriters to comply with the Rule.

## MISCELLANEOUS

The foregoing summaries of or references to the various acts, the Notes, the Note Resolution, the Letter of Credit, the Revolving Credit Agreement, the Reimbursement Agreement, the Commonwealth Report, the Commonwealth's Annual Financial Report, and the summaries of or references to the various acts and provisions contained in such documents are made subject to all the detailed provisions thereof to which reference is hereby made for further information and do not purport to be complete statements of any or all of such provisions.

Appended to and constituting a part of this Official Statement is the form of Letter of Credit (*Appendix I*), the proposed form of opinion of Bond Counsel (*Appendix II*) and Description of Letter of Credit Banks (*Appendix III*).

The information included in this Official Statement and incorporated herein by reference, except for information pertaining to DTC, the information appearing in Underwriting and the descriptions of the Letter of Credit Banks, was supplied by certain officials of the Commonwealth or certain of its agencies or instrumentalities, in their respective official capacities, or was obtained from publications of the Commonwealth or certain of its agencies or instrumentalities, and is included or incorporated by reference in this Official Statement on the authority of such officials or the authority of such publications as public official documents. The information pertaining to DTC was supplied by DTC.

This Official Statement will be filed with each NRMSIR and with the MSRB.

## COMMONWEALTH OF PUERTO RICO

By: /s/ Juan C. Méndez Torres  
Juan C. Méndez Torres  
Secretary of the Treasury  
Commonwealth of Puerto Rico



**FORM OF LETTER OF CREDIT**

**IRREVOCABLE DIRECT-PAY LETTER OF CREDIT**

**NO. 92342/80085 (THE BANK OF NOVA SCOTIA, ACTING THROUGH ITS HATO REY BRANCH); DCL0710240 (DEXIA CREDIT LOCAL, ACTING THROUGH ITS NEW YORK BRANCH); 91899001 (BNP PARIBAS, ACTING THROUGH ITS SAN FRANCISCO BRANCH); FOUSNYY001077 (FORTIS BANK S.A./N.V., ACTING THROUGH ITS NEW YORK BRANCH); NO. 20421 (KBC BANK N.V., ACTING THROUGH ITS NEW YORK BRANCH); NO. SBLC7703224NY (BANCO BILBAO VIZCAYA ARGENTARIA, ACTING THROUGH ITS NEW YORK BRANCH); NO. S027781 (BANCO SANTANDER, SA)**

November 1, 2007

Banco Popular  
de Puerto Rico,  
as Paying Agent  
Trust Division  
153 Ponce de Leon Avenue, Suite 800  
Hato Rey, Puerto Rico 00918  
  
Attention: Corporate Trust Department

Ladies and Gentlemen:

1. At the request of the Commonwealth of Puerto Rico (the "*Commonwealth*"), the Banks listed on the signature pages hereto (the "*Banks*") hereby establish in favor of Banco Popular de Puerto Rico, as paying agent (together with its successors and assigns, the "*Paying Agent*"), their Irrevocable Direct-Pay Letter of Credit No. 92342/80085 (The Bank of Nova Scotia, acting through its Hato Rey Branch); DCL0710240 (Dexia Credit Local, acting through its New York Branch); 91899001 (BNP Paribas, acting through its San Francisco Branch); FOUSNYY001077 (Fortis Bank S.A./N.V., acting through its New York Branch); No. 20421 (KBC Bank N.V., acting through its New York Branch); No. SBLC7703224NY (Banco Bilbao Vizcaya Argentaria, acting through its New York Branch); No. S027781 (Banco Santander, SA, acting through its New York Branch) (this "*Letter of Credit*") issued pursuant to that certain Reimbursement Agreement dated as of November 1, 2007 (the "*Reimbursement Agreement*"), by and among the Commonwealth, the Banks listed on the signature pages thereof, The Bank of Nova Scotia, acting through its New York Agency, as Lead Arranger and Administrative Agent (referred to in such capacity as the "*Administrative Agent*"), and BNP Paribas, acting through its San Francisco Branch ("*BNP Paribas*"), and Dexia Credit Local, acting through its New York Branch ("*Dexia*"), as Co-Agents (the "*Co-Agents*"), in the initial stated amount of \$1,042,074,513.89 in Dollars (as defined in the Reimbursement Agreement) (said initial stated amount equal to the principal amount of the Notes (as defined herein) on the Effective Date (as defined in the Reimbursement Agreement), plus interest thereon at an assumed rate of 4.25% per annum for a period of 269 days based upon a year of 360 days as such amount may be reduced from time to time as herein provided, herein referred to as the "*Stated Amount*"), which may be drawn upon by the Paying Agent to pay the principal of the Commonwealth's Tax and Revenue Anticipation

Notes, Series 2008 (the "*Notes*") on the stated maturity thereof together with accrued and unpaid interest thereon. Anything in this Letter of Credit to the contrary notwithstanding, the obligations of the Banks as issuers hereof shall be several and not joint. The obligations of (i) The Bank of Nova Scotia, acting through its Hato Rey Branch ("*Scotiabank*") hereunder shall not exceed \$208,414,902.79, (ii) BNP Paribas hereunder shall not exceed \$197,994,157.64, (iii) Dexia hereunder shall not exceed \$197,994,157.64, (iv) Fortis Bank S.A./N.V., acting through its New York Branch ("*Fortis*") hereunder shall not exceed \$156,311,177.08, (v) (KBC Bank N.V., acting through its New York Branch ("*KBC*") hereunder shall not exceed \$104,207,451.39; (vi) Banco Bilbao Vizcaya Argentaria S.A., acting through its New York Branch ("*BBVA*") hereunder shall not exceed \$145,890,431.94 and (vii) Banco Santander, SA, acting through its New York Branch ("*Santander*") hereunder shall not exceed \$31,262,235.42. Subject to the foregoing limitation, the several obligation of Scotiabank hereunder shall equal 20.0% of the Drawing, the several obligation of BNP Paribas hereunder shall equal 19.0% of the Drawing, the several obligation of Dexia hereunder shall equal 19.0% of the Drawing, the several obligation of Fortis hereunder shall equal 15.0% of the Drawing, the several obligation of KBC hereunder shall equal 10.0%, the several obligation of BBVA hereunder shall equal 14.0% of the Drawing and the several obligation of Santander hereunder shall equal 3.0% of the Drawing.

2. This Letter of Credit shall expire at 5:00 p.m., New York City time, on the date (the "*Termination Date*") which is the earliest of: (i) August 1, 2008 (the "*Stated Expiration Date*"), (ii) the date of payment of the Drawing by the Administrative Agent to the Paying Agent, (iii) the Administrative Agent's, on behalf of the Banks, receipt of a certificate signed by your duly authorized officer in the form of Annex B attached hereto appropriately completed, or (iv) the date when you surrender the original of this Letter of Credit to the Administrative Agent on behalf of the Banks, for cancellation. You agree to surrender the original of this Letter of Credit to the Administrative Agent on behalf of the Banks, after the Termination Date.

3. Funds under this Letter of Credit are available to you against your presentation of a drawing certificate in the form of Annex A attached hereto (the "*Drawing*") to the Administrative Agent, on behalf of the Banks, at The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 24<sup>th</sup> Floor, New York, New York 10006, Attention: Letter of Credit, Telephone: (212) 225-5424, Telecopy: (212) 225-6464, or at such other address and/or number which may be designated by the Administrative Agent by written notice delivered to the Paying Agent. Drafts may be presented to us by facsimile transmission to facsimile number (212) 225-6464. Such facsimile transmission shall be deemed the sole and exclusive presentation of the original documents provided that you simultaneously advise us by telephone, attention: Manager, Standby Letter of Credit Department at (212) 225-5424 and that the Manager of the Standby Letter of Credit Department confirms to you at the same time the good receipt of your facsimile transmission. Without limiting the obligations of the Banks under this Letter of Credit, the Administrative Agent, on behalf of the Banks, shall receive the Drawing, determine whether it complies with the terms and conditions hereof and promptly notify each Bank of the Drawing. The Drawing so presented shall have all blanks appropriately filled in and shall be signed by a person who purports to be an authorized officer of the Paying Agent and shall be in the form of a letter on the letterhead of the Paying Agent delivered or telecopied to the Administrative Agent.

4. The Administrative Agent, on behalf of the Banks, hereby agrees that demand for payment made under and in strict compliance with the terms of this Letter of Credit will be duly honored upon receipt of the Drawing request as specified in paragraph 3 hereof and if presented at the aforesaid office on or before the Termination Date. If the Drawing is received by the Administrative Agent at or prior to 10:00 a.m., New York time, on July 29, 2008, and provided that the documents presented in connection therewith strictly conform to the terms and conditions hereof, payment shall be made of the amount specified in immediately available funds, on July 30, 2008, no later than 11:00 a.m. New York time. If the Drawing is received by the Administrative Agent after 10:00 a.m., New York time, on July 29, 2008, but at or prior to 10:00 a.m., New York time, on July 30, 2008, and *provided* that the documents presented in

connection therewith strictly conform to the terms and conditions hereof, payment shall be made of the amount specified in immediately available funds, no later than 11:00 a.m., New York time, on July 31, 2008. If the Drawing is received hereunder after 10:00 a.m., New York time, on July 30, 2008, payment shall be made of the amount specified in immediately available funds, no later than 11:00 a.m., New York time, on the second Business Day immediately succeeding the date of such Drawing. Payment under this Letter of Credit shall be made by the Banks by wire transfer of immediately available funds of each Bank to the Administrative Agent who shall remit such amounts to the Paying Agent in accordance with the instructions specified by the Paying Agent in the drawing certificate relating to the Drawing hereunder. Such account may be changed only by presentation to the Administrative Agent of a letter in form satisfactory to the Administrative Agent specifying a different account with the Paying Agent and executed by the Paying Agent. As used in this Letter of Credit, "Business Day" shall mean a day other than (i) a Saturday or Sunday, (ii) any other day on which banks located in New York, New York or the cities in which the principal office of the Administrative Agent and the Paying Agent are located are authorized by law to close or (iii) a day on which the New York Stock Exchange is closed. The obligations of the Banks under this Letter of Credit shall be several and not joint, and each Bank shall pay in respect of the Drawing presented in accordance with the terms hereof an amount equal to such Bank's percentage of the amount of the Drawing as specified above. The Administrative Agent will promptly remit such amounts received from the Banks to the Paying Agent. Neither the Administrative Agent nor any Bank shall be responsible or otherwise liable for any other Bank's failure to perform its obligations under this Letter of Credit, nor shall the failure of any Bank to perform its obligations under this Letter of Credit relieve any other Bank of its obligations hereunder. The Administrative Agent shall not be liable for the failure of any Bank to perform its obligations under this Letter of Credit.

5. Only the Paying Agent may make the Drawing under this Letter of Credit. Upon payment as provided in paragraph 4 of the amount specified in the Drawing drawn hereunder, the Banks shall be fully discharged of their obligation under this Letter of Credit with respect to such Drawing.

6. This Letter of Credit is intended to apply only to the payment of the principal amount of the Notes through and including August 1, 2008 and accrued interest thereon through and including July 30, 2008.

7. To the extent not inconsistent with the express terms hereof, this Letter of Credit shall be governed by and construed in accordance with the Uniform Customs and Practices for Documentary Credits, International Chamber of Commerce Publication No. 600 (the "*Uniform Customs*"), except for the second sentence of Article 38(d) thereof and notwithstanding the provisions of the second sentence of Article 36 of the Uniform Customs, if this Letter of Credit expires during an interruption of business (as defined in Article 36 of the Uniform Customs), the Banks agree to effect payment under this Letter of Credit if a drawing which strictly conforms to the terms and conditions of this Letter of Credit is made within 15 days after the resumption of business and, as to matters not governed by the Uniform Customs, this Letter of Credit shall be governed by the internal laws of the State of New York, including, without limitation, the Uniform Commercial Code as in effect in the State of New York. Communications with respect to this Letter of Credit shall be in writing and shall be addressed to the Administrative Agent at The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26<sup>th</sup> Floor, New York, New York 10006, Attention: Public Finance (or to such other address as the Administrative Agent, on behalf of the Banks, may specify to you in writing), specifically referring thereon to this Letter of Credit by its number.

8. You may transfer your rights under this Letter of Credit in their entirety (but not in part) to any transferee who has succeeded to you as Paying Agent under the Paying Agency Agreement (as defined in the Reimbursement Agreement) and such transferred rights may be successively transferred. Transfer of your rights under this Letter of

Credit to any such transferee shall be effected upon the presentation to the Administrative Agent of this Letter of Credit accompanied by a transfer letter in the form attached hereto as Annex C.

9. This Letter of Credit sets forth in full our undertaking, and such undertaking shall not in any way be modified, amended, amplified or limited by reference to any document, instrument or agreement referred to herein (including, without limitation, the Notes), except only the certificates and letters referred to herein; and no such reference shall be deemed to incorporate herein by reference any document, instrument or agreement.

Very truly yours,

THE BANK OF NOVA SCOTIA, acting through its  
New York Agency, as Administrative Agent

THE BANK OF NOVA SCOTIA, acting through its  
Hato Rey Branch, as a Bank

BNP PARIBAS, acting through its San Francisco  
Branch, as a Bank

DEXIA CREDIT LOCAL, acting through its New York  
Branch, as a Bank

FORTIS BANK S.A./N.V., acting through its New York  
Branch, as a Bank

BANCO BILBAO VIZCAYA ARGENTARIA S.A.,  
acting through its New York Branch

KBC BANK N.V., acting through its New York  
Branch as a Bank

BANCO SANTANDER, SA, acting through its New  
York Branch as a Bank

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

*Upon delivery of the Notes, Squire, Sanders & Dempsey L.L.P. is prepared to render its final opinion with respect to the Notes in substantially the following form:*

November \_\_, 2007

Honorable Juan Carlos Méndez  
Secretary of the Treasury of  
Puerto Rico  
San Juan, Puerto Rico

Re: \$1,010,000,000 Tax and Revenue Anticipation Notes of the Commonwealth of  
Puerto Rico, Series 2008

Dear Sir:

We have served as bond counsel in connection with the issuance by the Commonwealth of Puerto Rico (the "Commonwealth") of its \$1,010,000,000 aggregate principal amount of Tax and Revenue Anticipation Notes of the Commonwealth of Puerto Rico, Series 2008 (the "Notes"). The Notes are dated their initial date of delivery, mature on July 30, 2008 and bear interest at the rate of 4.25%, payable on July 30, 2008, all as set forth in the Note Resolution referred to hereinbelow. The Notes are issuable as registered notes without coupons in denominations of \$5,000 or any multiple thereof, in the manner and in accordance with the terms and conditions of the Note Resolution. The Notes are not subject to redemption or acceleration prior to maturity.

In our capacity as bond counsel, we have examined the transcript of the proceedings (the "Transcript") of the Commonwealth relating to the issuance of the Notes, including, without limitation, Act No. 1 of the Legislature of Puerto Rico, approved on June 26, 1987, as amended by Act No. 139 of the Legislature of Puerto Rico, approved on November 9, 2005 (collectively, the "Act"), and resolutions adopted on October 18, 2007 by the Secretary of the Treasury of Puerto Rico and approved by the Governor of Puerto Rico (collectively, the "Note Resolution"), and such other documents as we have deemed necessary to render this opinion.

We have also examined a copy of a Note as executed and authenticated. We assume that all other Notes have been similarly executed and authenticated.

From such examination, we are of the opinion that:

1. The Act is valid.
2. Said proceedings have been validly and legally taken.
3. The Notes have been duly authorized and issued to fund a portion of the projected cash flow requirements of the Commonwealth's General Fund in fiscal 2008, which requirements result from timing differences between expected disbursements and receipts of taxes and revenues, including, without limitation, to repay amounts borrowed by the Commonwealth under a revolving line of credit (the "Line of Credit") obtained in advance of the issuance of the Notes. The Notes are valid and binding obligations of the Commonwealth and are payable (i) first from amounts drawn under an irrevocable direct-pay Letter of Credit of even date hereof (the "Letter of Credit") issued by The Bank of Nova Scotia, acting through its Hato Rey Branch, Dexia Credit Local, acting through its New York Branch, BNP Paribas, acting through its San Francisco Branch, Fortis Bank S.A./N.V., acting through its New York Branch, KBC Bank N.V., acting through its New York Branch, Banco Bilbao Vizcaya Argentaria S.A., acting through its New York Branch and Banco Santander, S.A., acting through its New York Branch (collectively, the "Banks") and (ii) in the

event one or more Banks fail to honor their obligations under the Letter of Credit, from the special fund created by the Act designated "Special Fund for the Redemption of Tax and Revenue Anticipation Notes" (the "Note Fund"), to the credit of which Note Fund the Secretary of the Treasury of Puerto Rico is required by and in the manner set forth in the Note Resolution and that certain resolution adopted on June 27, 2007 by the Secretary of the Treasury and approved by the Governor to deposit all taxes and revenues required to be deposited in the General Fund of the Commonwealth received after March 31, 2008 and on or prior to June 30, 2008 plus any balance in the General Fund on April 1, 2008 in respect of taxes and revenues received by the General Fund after July 1, 2007 (and if certain coverage requirements are not met, taxes and revenues so deposited prior to April 1, 2008), subject to certain prior applications as specified in the Act. Amounts in the Note Fund shall also be applied to pay the Letter of Credit Note and the Revolving Credit Note (as such terms are defined in the Note Resolution) as provided in the Note Resolution. The full faith, credit and taxing power of the Commonwealth are not pledged to the payment of the Notes.

4. The interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The Notes and the interest thereon are exempt from state, Commonwealth and local income taxation. We express no opinion as to any other tax consequences regarding the Notes.

Under the Code, a portion of the interest on the Notes earned by certain corporations may be subject to a federal corporate alternative minimum tax and interest on the Notes may be subject to a federal branch profits tax imposed on certain foreign corporations doing business in the United States and to a federal tax imposed on excess net passive income of certain S corporations.

In giving the opinion set forth in numbered paragraph 4 hereof, we have relied upon, and assumed continuing compliance with, the Commonwealth's covenants and the accuracy, which we have not independently verified, of the representations and certifications of the Commonwealth contained in the Transcript. The accuracy of those representations and certifications, and the Commonwealth's continuing compliance with those covenants, may be necessary for the interest on the Notes to be and to remain excluded from gross income for federal income tax purposes. Failure to comply with certain of those covenants subsequent to issuance of the Notes may cause interest on the Notes to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Notes. The Commonwealth has covenanted to comply with the requirements of the Code to the extent permitted by the Constitution and laws of the Commonwealth. We are not aware of any provisions of the Constitution or laws of the Commonwealth that would prevent the Commonwealth from complying with the requirements of the Code.

In rendering the opinions set forth herein, we have assumed the accuracy and truthfulness of all public records and of all certifications, documents and other proceedings examined by us that have been executed or certified by public officials acting within the scope of their official capacities and have not verified the accuracy or truthfulness thereof. We have also assumed the genuineness of the signatures appearing upon such public records, certifications, documents and proceedings. As to questions of fact material to our opinion, we have relied on representations of the Commonwealth furnished to us, without undertaking to verify such representations by independent investigation.

It is to be understood that the rights of the holders of the Notes and the enforceability of the Note Resolution and the Notes may be subject to judicial discretion and valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally, and subject to general principles of equity (regardless of whether considered in a proceeding in equity or at law).

Respectfully submitted,

[To be signed "Squire, Sanders & Dempsey L.L.P."]

**DESCRIPTION OF LETTER OF CREDIT BANKS****BANK OF NOVA SCOTIA**

The Bank of Nova Scotia ("Scotiabank" or the "Bank"), founded in 1832, is a Canadian chartered bank with its principal office located in Toronto, Ontario. Scotiabank is one of North America's premier financial institutions and Canada's most international bank. With 48,000 employees, Scotiabank and its affiliates serve over 10 million customers throughout the world.

Scotiabank provides a full range of personal, commercial, corporate and investment banking services through its network of branches located in all Canadian provinces and territories. Outside Canada, Scotiabank has branches and offices in over 50 countries and provides a wide range of banking and related financial services, both directly and through subsidiary and associated banks, trust companies and other financial firms.

For the fiscal year ended October 31, 2006, Scotiabank recorded total assets of CDN\$379.0 billion (US\$337.6 billion) and total deposits of CDN\$263.9 billion (US\$235.1 billion). Net income for the fiscal year ended October 31, 2006 equaled CDN\$3.579 billion (US\$3.188 billion), compared to CDN\$3.209 billion (US\$2.717 billion) for the prior fiscal year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of October 31, 2006 (1.0000 United States dollar equals 1.1227 Canadian dollars).

For the quarter ended July 31, 2007, Scotiabank recorded total assets of CDN\$408.1 billion (US\$382.5 billion) and total deposits of CDN\$287.0 billion (US\$269.0 billion). Net income for the quarter ended July 31, 2007 equaled CDN\$1.0 billion (US\$937 million), compared to CDN\$936 million (US\$877 million) for the same period the prior year. Amounts above are shown in Canadian dollars and also reflect the United States dollar equivalent as of Tuesday, July 31, 2007 (1.0000 United States dollar equals 1.0668 Canadian dollars).

Scotiabank will provide to anyone, upon written request, a copy of its most recent annual report, as well as a copy of its most recent quarterly financial report. Requests should be directed to: The Bank of Nova Scotia, New York Agency, One Liberty Plaza, 26<sup>th</sup> Floor, New York, NY, 10006. Attention: Public Finance Department.

The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery of this disclosure information by the Bank shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this disclosure information is correct as of any time subsequent to its date.

## **BNP PARIBAS**

The BNP Paribas Group (the "Group") (of which BNP Paribas, a French corporation (société anonyme), is the parent company) is a European leader in banking and financial services. It has approximately 150,500 employees, 118,700 of whom are based in Europe. The Group occupies leading positions in three significant fields of activity: Corporate and Investment Banking, Asset Management & Services and Retail Banking. It is present in 85 countries and has a strong presence in all the key financial centers. Present throughout Europe, in all its business lines, France and Italy are its two domestic markets in retail banking. BNP Paribas has a significant and growing presence in the United States and leading positions in Asia and in emerging markets.

The Group has three divisions: Retail Banking, Asset Management and Services and Corporate and Investment Banking, the latter two of which also constitute "core businesses." Operationally, the Retail Banking division is itself comprised of three core businesses: French Retail Banking, International Retail Banking and Financial Services, Italian Retail Banking (BNL bc). The Group has additional activities, including those of its listed real estate subsidiary, Klépierre, which are conducted outside of its core businesses.

As of June 30, 2007, the Group had consolidated assets of €1,663.6 billion (compared to €1,440.3 billion as of December 31, 2006), consolidated loans and receivables due from customers of €426.8 billion (compared to €393.1 billion as of December 31, 2006), consolidated items due to customers of €321.9 billion (compared to €298.7 billion as of December 31, 2006) and shareholders' equity (Group share including income as of June 30, 2007) of €52.2 billion (compared to €49.5 billion as of December 31, 2006). Pre-tax net income as of June 30, 2007 was €6.8 billion (compared to €10.6 billion for the year ended December 31, 2006). Net income, Group share as of June 30, 2007 was €4.8 billion (compared to €7.3 billion for the year ended December 31, 2006). Revenues as of June 30, 2007 were €16.4 billion (compared to €27.9 billion for the year ended December 31, 2006).

The Group currently has long-term senior debt ratings of "Aa1" with stable outlook from Moody's, "AA+" with stable outlook from Standard & Poor's and "AA" with stable outlook from Fitch Ratings.

The information concerning the BNP Paribas and the Group contained herein is furnished solely to provide limited introductory information regarding the BNP Paribas and the Group and does not purport to be comprehensive.

The delivery of the information contained in this section shall not create any implication that there has been no change in the affairs of the BNP Paribas or the Group since the date hereof, or that the information contained or referred to in this section is correct as of any time subsequent to its date.



## **DEXIA CREDIT LOCAL**

Dexia Credit Local ("Dexia") is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 24 billion euros as of December 31, 2006, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group's first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,500 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2006 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2006, total funding raised by Dexia and Dexia Municipal Agency was 15.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. ("FSA Holdings"), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2006, Dexia had total consolidated assets of 304 billion euros, outstanding medium and long-term loans to customers of 241 billion euros and shareholders' equity of over 7.98 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 1.082 billion euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2006, the exchange rate was 1.0000 euro equals 1.317 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa1 long-term and P-1 short-term by Moody's, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7<sup>th</sup> Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

## **FORTIS BANK S.A./N.V.**

Fortis Bank S.A./N.V. ("Fortis Bank") conducts the banking activities of Fortis, an international financial services provider active in the fields of banking, insurance and investment.

Fortis Bank is a wholly-owned indirect subsidiary of Fortis SA/NV and Fortis N.V., whose principal offices are located in Brussels (Belgium) and Utrecht (the Netherlands) respectively.

Fortis Bank is a commercial bank offering a full range of banking and insurance products and services to a wide range of customers. In its home market, the Benelux countries, Fortis Bank occupies a leading position. Fortis is the largest bank in Belgium, the second-largest in Luxembourg, and the fourth-largest in the Netherlands. The bank had full-time staff of over 43,000 in 2006. Outside its home market, Fortis Bank concentrates on selected market segments. Its business is subject to examination and regulation by the Belgian Banking, Finance and Insurance Commission ("CBFA").

As of December 31, 2006 Fortis Bank had total assets of EUR 674.7 billion.

Fortis Bank's New York branch (the "New York Branch") has been licensed by the New York State Banking Department (the "NY Banking Department") to carry on the business of a branch as of November 15, 2002. The New York Branch is subject to examination by the Banking Department and the Federal Reserve Bank of New York. In addition, the New York Branch is required to file periodic and other reports containing financial information with the Banking Department and the Federal Reserve Bank of New York.

Additional information, including the Fortis Annual Report for 2006, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to Fortis Bank, 520 Madison Avenue, New York, New York 10022. This information is also available at [www.Fortis.com](http://www.Fortis.com).

The financial statements appearing in the Fortis Annual Report for 2006 were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which differ from generally accepted accounting principles in use in the United States.

The information in this Appendix has been obtained from Fortis Bank, which is solely responsible for its content. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of Fortis Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date.

## BANCO BILBAO VIZCAYA ARGENTARIA

Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") is a multinational financial services group. Its 7,526 branches and 101,401 employees provide banking and financial services solutions to a global customer base of 35 million customers in 32 countries. The financial services include corporate and consumer lending, credit card services, ATMs, telephone and Internet banking. Internationally, BBVA provides investment banking and brokerage services, venture capital, private banking and investment management.

As of the second quarter ENDED June 30, 2007, BBVA's total assets were 466,443 million euros and net attributed profit was 2,624 million euros (excluding non-recurrent items).

The BBVA and its subsidiaries four business areas are:

**Spain and Portugal:** this includes Corporate Banking and Financial Services for individual customers, small companies and businesses in the domestic market, plus consumer finance provided by Finanzia and Uno-e, mutual and pension fund managers, the insurance business and BBVA Portugal.

**Global Businesses:** this area consists of SMEs, large companies and global institutions. Global Businesses covers the global customer unit, investment banking, treasury management, private banking and distribution. The area also services of business and real estate projects.

**Mexico and the United States:** this area includes the banking, insurance and pension businesses in Mexico and the United States (including Puerto Rico).

**South America:** this consists of banking, insurance and pension businesses in Argentina, Chile, Colombia, Panama, Paraguay, Peru, Uruguay and Venezuela.

*For further information log on to [www.bbva.com](http://www.bbva.com)*

## KBC BANK N.V.

KBC Bank N.V., New York Branch ("KBC NYB") is an unincorporated branch of KBC Bank N.V., a naamloze vennootschap (public company of limited liability) organized under the laws of Belgium, whose principal office is located in Brussels, Belgium. KBC Bank N.V. conducts operations through additional offices and agencies in the United States and around the world. Created on June 4, 1998 through the combination of two predecessor Belgian banks, Kredietbank N.V. and CERA Bank C.V., KBC Bank N.V. is subject to regulation by the Belgium Banking Commission and to Belgian banking and accounting law. KBC Bank N.V. maintains its records and prepares its financial statements in accordance with accounting principles generally accepted in Belgium. Such records and financial statements are maintained and prepared in Euro currency (EUR).

One of the largest commercial banks in Belgium, KBC Bank N.V. operates as a universal bank, engaged in commercial and investment banking, and offers comprehensive financial services. In contrast with the two other major Belgian banks, KBC Bank N.V.'s branches in Belgium are located exclusively in Flanders and Brussels. KBC Bank N.V. is indirectly represented through CBC Banque S.A., a majority-owned subsidiary with branches in the Walloon region and Brussels.

KBC NYB was originally established in 1977 as a New York Branch of Kredietbank N.V., and has been relicensed by the Banking Department of the State of New York as a New York Branch of KBC Bank N.V. to provide a full range of services in New York. In addition to handling foreign exchange transactions, KBC NYB is active in international payment transactions and the clearing of commercial payments and professional transactions in U.S. Dollars. KBC NYB is also involved in providing financial services, particularly credit, for European (including Belgian) companies operating in the United States, as well as for United States corporations.

### Selected Consolidated Financial Data of KBC Bank N.V.

Year Ended

**December 31, 2006**

(EUR Millions)

Total Assets	EUR	325,400
Amounts Owed to Customers		180,031
Loans and Advances to Customers		132,400
Total Equity		17,219
Net Income		3,430

Conversion Rate: As of December 31, 2006, EUR 0.759 = US\$1.00

KBC NYB will provide, upon written request and without charge, a copy of KBC Bank N.V.'s Annual Report for the year ended December 31, 2006. Written requests should be directed to: KBC Bank N.V., New York Branch, 1177 Avenue of the Americas, New York, New York 10036, Attention: Controller.

The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of KBC Bank N.V. since December 31, 2006 or that information contained or referred to in this Appendix III is current as of any time subsequent to such date.

## **BANCO SANTANDER, S.A.**

Banco Santander, S.A. ("Santander") was established on March 21, 1857 and incorporated in its present form by a public deed executed in Santander, Spain, on January 14, 1875, recorded in the Mercantile Registry (Finance Section) of the Government of the Province of Santander.

Santander's activities comprise a full range of retail, commercial and corporate banking services, including investment banking, treasury and capital markets and insurance.

As of June 30, 2007 Santander on a consolidated basis had:

- Assets of 885,603 million Euros.
- Total managed funds of 1,071,815 million Euros.
- Market capitalization of 85,621 million Euros.
- Shareholders' equity of 43,956 million Euros.

For further details, please access Santander's website at [www.gruposantander.com](http://www.gruposantander.com). For the website in the English language, click on the "English" link and access "Information for Shareholders and Investors."

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